100th Congress
1st Session

COMMITTEE PRINT

S. PRT.
100-11

Data and Materials for the

# Fiscal Year 1988 Finance Committee Report

Under the

# Congressional Budget Act

Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE
UNITED STATES SENATE

Lloyd Bentsen, *Chairman*

FEBRUARY 1987

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
68-072 O
WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

5362-2

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# SUMMARY: IMPACT OF CONGRESSIONAL BUDGET ACT ON FINANCE COMMITTEE

The Congressional Budget Act of 1974 (titles I–IX of Public Law 93–344), as amended by the Balanced Budget and Emergency Deficit Control Act of 1985 (also known as the Gramm-Rudman-Hollings amendment), provides the mechanisms and procedures for Congress to establish its own annual Federal budget and to consider spending, revenue, and debt limit legislation in the context of that budget.

The Balanced Budget and Emergency Deficit Control Act of 1985 set forth maximum deficit amounts which Congress must meet in each of the fiscal years 1986 through 1991, leading to a balanced budget in the last year. The maximum deficit amounts are as follows: (1) $171.9 billion for fiscal year 1986, (2) $144 billion for fiscal year 1987, (3) $108 billion for fiscal year 1988, (4) $72 billion for fiscal year 1989, (5) $36 billion for fiscal year 1990, and (6) zero for fiscal year 1991. If Congress, however, fails to meet the maximum deficit amount in any fiscal year, the 1985 Act provides for an automatic deficit reduction procedure.

The Balanced Budget and Emergency Deficit Control Act also made significant changes to the 1974 Budget Act and many of those changes are included in the description of the budget process which follows.

The provisions of the Budget Act, as amended, have a number of effects on the consideration of legislation handled by the Committee on Finance. The major provisions affecting the Finance Committee are the following:

1. By February 25 of each year, the Finance Committee must submit a report to the Budget Committee estimating the effect that Finance Committee legislation will have on expenditures, revenues, and the debt limit during the next fiscal year, and presenting the committee's views and estimates with respect to such expenditures, revenues, and the debt limit. (The reports submitted in prior years appear in Appendix A.)

2. Certain kinds of legislation may not be considered prior to certain specific dates. Revenue and debt limit legislation for the upcoming fiscal year, and legislation increasing expenditures in such areas as social security and welfare, cannot be considered by the Senate before Congress completes action on a budget resolution, which is to be accomplished by April 15. However, procedures are provided for waiving these restrictions, ordinarily by obtaining Senate approval of a resolution (which is referred to the Budget Committee for up to 10 days) permitting immediate Senate consideration.

3. If the Finance Committee reports legislation affecting welfare, medicaid, social services, and other non-trust-fund entitlement programs, it may not be considered in the Senate unless the Finance

Committee has filed an allocation report showing how it intends to subdivide spending for programs within its jurisdiction. If the legislation exceeds the amount budgeted in that allocation report, the legislation is to be referred to the Appropriations Committee for 15 days.

4. By April 15, Congress completes action on the concurrent budget resolution for the coming fiscal year setting appropriate revenue, spending, and deficit levels. The resolution can direct the Finance Committee to report legislation raising taxes or cutting back on spending programs within the committee's jurisdiction. Prior to the 1985 amendments, the Act also provided for the consideration of a second budget resolution in September. The spending and revenue levels in the first budget resolution were targets; these levels were binding as set forth in the second budget resolution. The requirement of a second budget resolution was eliminated by the 1985 amendments. Thus, the overall spending and revenue levels in the April 15 budget resolution become binding when the conference report thereon has been adopted by the Senate and the House.

# CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974, AS AMENDED

## 1. Overall View

### OUTLINE OF CONGRESSIONAL BUDGET PROCESS

By April 1 of each year, the Budget Committees of the House and Senate shall report to their respective Houses a concurrent resolution which is, in effect, a congressional budget document setting forth appropriate levels for spending, revenues, and public debt for the coming fiscal year. The spending levels are broken down into functional categories (such as "health," "income security," "national defense"). The recommendations in the resolution reported by the Budget Committee are subject to debate and amendment.

When agreed to by the House and the Senate (by April 15), the resolution represents congressional judgment of the appropriate fiscal situation for the coming year, which can direct the appropriate committees to report legislation changing spending, revenue, or debt limit levels (or any combination of the three). Upon adoption of the resolution, committees directed to do so are to report the legislation called for by the resolution, and this legislation is then debated by Congress as part of a "reconciliation bill." Action on this reconciliation bill is to be completed by June 15.

### WAIVER OF RULES REGARDING BUDGET PROCEDURE

Some of the rules applicable to Senate procedures under the Congressional Budget Act can be waived by a majority vote of the Senate. Others, as a result of the 1985 Act amendments, now require a three-fifths vote of all Senators. Appendix C lists all Budget Act points of order and the vote required to waive them. In addition, the act includes a special waiver procedure in connection with the provisions requiring that revenue, debt limit, and spending bills (including social security, welfare, etc.) not be acted on before the adoption of the budget resolution, action which is to be completed by April 15. If a committee wished to have such legislation considered outside of the prescribed time, it would report out a resolution providing for a waiver of the rule. This resolution would be referred to the Budget Committee, which would have 10 days in which to consider and make its recommendations with respect to the waiver. Once the resolution is reported by the Budget Committee (or after 10 days in any case), the resolution of waiver would be voted upon by the Senate, and, if it is approved, the Senate could proceed to consider the legislation.

## 2. Impact of the Budget Act on Finance Committee

### LEGISLATION WHICH RESULTS IN ADDITIONAL FEDERAL SPENDING

*Annual report to Budget Committee.*—Each year, prior to the consideration of the first concurrent resolution on the budget, each committee is required to make a report to the Budget Committee presenting its views and estimates concerning spending under its jurisdiction during the coming fiscal year (and the following two fiscal years). By statute this report is due no later than February 25.

*Report after adoption of budget resolution.*—The conference report on each budget resolution allocates the outlay and budget authority totals among the various committees. Each committee is then required, after consultation with the appropriate counterpart committee in the House of Representatives, to subdivide its allocation of new budget authority and outlays among the programs under its jurisdiction (or among its subcommittees). These allocations subsequently serve as the basis for scorekeeping reports and for judging whether particular legislative proposals are consistent with the budget resolution. Bills and amendments involving spending may not be considered until the committee with jurisdiction over that spending program has filed its allocation report.

*Limitation on consideration of spending bills.*—The Congressional Budget Act provides that bills involving entitlement programs (such as welfare or medicaid) and bills directly increasing budget authority (such as social security or unemployment insurance) may not be considered in the Senate prior to the adoption of the concurrent budget resolution. This requirement may be waived under the special waiver procedure or by a majority vote of the Senate to suspend this rule. In addition, entitlement legislation (other than trust fund legislation) reported after January 1 of any year may not have an effective date prior to October 1 of that year.

*Impact of concurrent budget resolutions on legislation.*—The concurrent resolution, which is to be passed by April 15, not only sets appropriate spending levels but may direct the committees having jurisdiction over spending legislation to report reconciliation legislation to rescind previously enacted spending authority so as to bring spending for the coming fiscal year within the levels determined to be appropriate. In the case of the Committee on Finance, this may include a requirement that the committee report legislation to defer or reduce benefits under entitlement programs, including both trust fund programs (such as unemployment insurance or medicare) and non-trust-fund programs (such as welfare, social services or medicaid). Reconciliation legislation may not include changes in the Social Security programs of Old-Age, Survivors and Disability Insurance (OASDI).

After the adoption of the budget resolution for a fiscal year, new spending measures for that fiscal year would be subject to a point of order if they would cause the spending limits in the concurrent resolution to be exceeded or would cause the deficit for the fiscal year to exceed the maximum deficit amount. In the case of the Committee on Finance, this limitation would apply to entitlement legislation dealing with both trust fund and non-trust-fund programs. (A new or revised budget resolution could, however, be passed to authorize such additional spending, or the rule could be waived by a three-fifths vote of the Senate.)

The budget totals included in the resolution are mandatory, establishing firm guidelines within which the Congess considers legislation affecting revenues and spending. Thus, if unrealistic assumptions or objectives are used in setting the budget resolution totals, committees may subsequently find their ability to act on desired legislation impaired.

*Appropriations Committee review of entitlement bills.*—Legislation in such areas as supplemental security income, welfare, social services, or medicaid creates an entitlement to payments on the part of individuals or State or local governments even though these programs are funded through appropriations acts. The Congressional Budget Act requires that any future legislation which would create new entitlement programs or increase existing ones must be referred to the Appropriations Committee for a period of 15 days after it is reported by the substantive committee, if its enactment would exceed the amount provided for in the committee's allocation of its spending authority under the most recent budget resolution. The Appropriations Committee could not recommend any substantive changes in the legislation (e.g., lower individual benefit amounts), but it could recommend an amendment to limit the total amount of funding available for the legislation. If such an amendment is approved by the Senate, the substantive committee might have to propose a further amendment to conform the legislation to that funding limit.

The requirement of referral to the Appropriations Committee would not apply to legislation affecting existing Social Security Act trust fund programs or other trust fund programs substantially funded through earmarked revenues. It would also not apply to legislation amending or extending the general revenue sharing program to the extent that such legislation included an exemption from that requirement.

In the past, refundable tax credits were treated for purposes of the congressional budget process as revenue reductions. Under revised procedures adopted in 1978, the budget process now treats the refundable aspects of such credits as "outlays" thus bringing them within the scope of the above described provisions related to Appropriations Committee review of entitlement bills. In addition, the authority previously used for disbursing the refundable part of tax credits has been the permanent appropriation for tax refunds. This permanent appropriation was amended in 1978 so as to require annual appropriations for this purpose.

*Report on spending legislation.*—The Budget Act requires the committee, in reporting legislation involving increased spending, to include in the report information showing how that spending compares with the amount of spending provided for in the most recent budget resolution. In addition, if this information is provided by the Congressional Budget Office (CBO) on a timely basis, the report must also include CBO projections showing the extent to which the legislation provides financial aid to States and localities and a projection for five fiscal years of the spending which will result from the legislation. This requirement has now also been extended to conference reports, if the information is provided by CBO on a timely basis.

### LEGISLATION RELATING TO REVENUES AND DEBT LIMIT

*Annual report to the Budget Committee.*—The February 25 annual report to the Budget Committee which is described above also must, in the case of the Finance Committee, present its views and estimates with regard to revenues and the debt limit.

*No revenue legislation prior to adoption of the budget resolution.*—Under the Budget Act, debt limit or revenue legislation for the upcoming fiscal year is not in order for consideration by the Senate (or House) prior to the adoption of the resolution on the budget. This rule would not prevent action on revenue changes to be effective in years after the upcoming fiscal year. (A procedure for waiving this limitation is provided for; the rule could also be suspended by a majority vote of the Senate.)

The exact wording of this provision of the Budget Act is not entirely clear. In 1978, the Senate Budget Committee adopted the position that this restriction required that there be no increase or decrease in revenues to become effective in the next fiscal year for which no budget resolution had been adopted. In other words, under this interpretation, there would always be one "closed year" for which no revenue change could be considered. Consequently, a point of order was raised during the consideration of the 1978 tax cut bill (H.R. 13511) against an amendment by Senator Roth on the grounds that it provided for a revenue change effective in fiscal year 1980. (The first budget resolution for fiscal year 1980 would not have been adopted until approximately May 15, 1979.) The position of the Finance Committee was that this restriction in the Budget Act only applied from the beginning of the calendar year, when the process of developing the fiscal 1980 budget resolution has begun. Once that resolution has been approved, revenue changes may be considered throughout the remainder of the calendar year which would be effective for the fiscal year to which the resolution applies and for any future fiscal year.

The point of order raised by the Budget Committee was sustained by the Chair, but the ruling of the Chair was overturned by the Senate on a vote of 38 to 48. This occurred on October 5, 1978.

*Impact of budget resolution.*—As with spending measures, the concurrent resolution adopted in mid-April sets mandatory levels for revenue and debt limit legislation, and may direct the Committee on Finance to report reconciliation legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determines to be appropriate. Such legislation would have to be reported in time to be included in the reconciliation bill which is to be acted upon by June 15. Once a budget resolution is adopted by the Congress, any legislation which would cause the total revenues to be reduced below the level specified in the budget resolution would be subject to a point of order. If the budget resolution sets a revenue target which exactly matches the projected revenues under existing law (or any expected modifications to existing law), even minor bills having nearly negligible revenue impacts can be rejected on a point of order. If the resolution includes unrealistic revenue goals, the committee will face difficulties in the consideration of any revenue legislation.

*Required report on tax expenditures.*—The Budget Act defines the term "tax expenditures" to include any revenue losses attributable to tax provisions such as income exclusions, tax credits or deferrals, or preferential tax rates. The law requires that the committee report accompanying legislation to provide new or increased tax expenditures include a projection by CBO (if timely received) as to how such legislation will affect the level of tax expenditures under existing law. The report will also have to include (to the extent practicable) a projection of the tax expenditures resulting from the legislation over a period of five fiscal years. This requirement also now applies to conference reports.

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# CHARTS AND DESCRIPTIONS

Chart 1

# Report to Budget Committee

Views and estimates of Finance Committee on:

1. Expenditures
2. Revenues
3. Tax expenditures
4. Public debt

Relating both to existing law and proposals to change existing law

## Chart 1

## Report to Budget Committee

Under the Congressional Budget Act of 1974, as amended by the Emergency Balanced Budget and Deficit Control Act of 1985, the Committee on the Budget is required by April 1 of each year to report to the Senate a concurrent resolution on the budget which is, in effect, a proposed congressional budget document setting forth appropriate levels of Federal expenditure and revenue, surplus or deficit, and related matters. To assist the Budget Committee in making the judgments necessary to develop such a budget, the Act also mandates that each committee send to the Budget Committee its views and estimates on those aspects of the budget which fall within its jurisdiction. This report is due by February 25 of each year.

In the case of the Committee on Finance, the report to the Budget Committee must cover the expenditure programs under Finance Committee jurisdiction which are listed on chart 5, Federal revenues, tax expenditures, and the public debt. With respect to each of these matters, the committee is required to provide its views and estimates as to the levels anticipated under existing law or under any changes to existing law which the committee expects. The period to be covered by the report to the Budget Committee is fiscal year 1988 (and for planning purposes, fiscal years 1989 and 1990). The reports sent to the Budget Committee in prior years are reprinted in Appendix A.

Section 301(c) of the Budget Act, which deals with the February 25 report to the Budget Committee, is included in the excerpts from that Act which appear in Appendix B.

## Chart 2.—ECONOMIC ASSUMPTIONS

[Calendar years; dollars in billions]

| | 1987 | | 1988 | | 1989 | | 1990 | |
|---|---|---|---|---|---|---|---|---|
| | CBO | OMB | CBO | OMB | CBO | OMB | CBO | OMB |
| Gross national product (GNP): | | | | | | | | |
| Current dollars | 4,469 | 4,493 | 4,779 | 4,816 | 5,124 | 5,165 | 5,503 | 5,524 |
| Constant (1982) dollars | 3,779 | 3,794 | 3,893 | 3,928 | 4,010 | 4,071 | 4,134 | 4,218 |
| Percent change in real GNP | 2.8 | 3.1 | 3.0 | 3.5 | 3.0 | 3.6 | 3.1 | 3.6 |
| Personal income | NA | 3,700 | NA | 3,941 | NA | 4,201 | NA | 4,452 |
| Wages and salaries | 2,199 | 2,210 | 2,351 | 2,371 | 2,531 | 2,546 | 2,725 | 2,716 |
| Corporate profits before tax | 322 | 309 | 339 | 341 | 364 | 377 | 396 | 411 |
| Percent change in CPI | 3.5 | 3.0 | 4.3 | 3.6 | 4.3 | 3.6 | 4.3 | 3.2 |
| Unemployment rate, total (percent) | 6.6 | 6.7 | 6.5 | 6.3 | 6.3 | 6.0 | 6.1 | 5.8 |
| Treasury bill rate (91-day) (percent) | 5.6 | 5.4 | 5.7 | 5.6 | 5.6 | 5.3 | 5.5 | 4.7 |

## Chart 2

## Economic Assumptions

Both the overall budget totals and the budgetary impact of legislative proposals can be significantly affected by various economic factors concerning which there reasonably may be differences of opinion. These differences can reflect divergent viewpoints as to how the economy will operate and as to the type of legislation that may be enacted and its effect on the operations of the economy.

Different programs are particularly sensitive to different aspects of the economy. For example, expenditures under social security are sensitive to the Consumer Price Index (CPI) since that program includes an automatic cost-of-living increase provision. The unemployment insurance program does not incorporate such a provision but is, of course, particularly sensitive to the amount of unemployment.

Revenues, similarly, are strongly affected by the level of personal income and of corporate profits, and, in the case of payroll tax revenues, by wages and salaries. In addition, trends in interest rates, the rate of inflation, and the size of the budget deficit affect the cost of interest on the public debt.

In developing the Congressional budget, the Congress has in the past used the economic assumptions of the Congressional Budget Office. This chart shows the major economic assumptions underlying the President's budget and also those which have been adopted by CBO. In general, the CBO assumptions project somewhat slower economic growth, higher inflation and interest rates, and higher unemployment levels.

## Chart 3.—THE OVERALL BUDGET

[In billions of dollars]

| | CBO Baseline | | | OMB current services | | | President's budget | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY88 | FY89 | FY90 | FY88 | FY89 | FY90 | FY88 | FY89 | FY90 |
| Budget: | | | | | | | | | |
| Outlays | 865 | 908 | 956 | 858 | 903 | 942 | 822 | 857 | 885 |
| Revenues | 660 | 700 | 764 | 669 | 705 | 754 | 675 | 713 | 762 |
| Deficit | −205 | −208 | −192 | −189 | −198 | −189 | −147 | −144 | −124 |
| Social Security: | | | | | | | | | |
| Outlays | 205 | 216 | 229 | 203 | 212 | 223 | 202 | 212 | 222 |
| Revenues | 241 | 262 | 287 | 242 | 263 | 286 | 242 | 263 | 287 |
| Surplus | +36 | +46 | +58 | +39 | +51 | +63 | +40 | +52 | +64 |
| "Gramm-Rudman-Hollings": | | | | | | | | | |
| Deficit | −169 | −162 | −134 | −150 | −147 | −126 | −108 | −93 | −60 |
| Target | −108 | −72 | −36 | −108 | −72 | −36 | −108 | −72 | −36 |
| Difference | 61 | 90 | 98 | 42 | 75 | 90 | 0 | 21 | 24 |

## Chart 3

## The Overall Budget

In considering its legislative plans for the upcoming year, the Committee may find it useful to look at the overall budget totals under a continuation of current tax and spending policies and also under the budget proposed by the President.

Because of differing economic and technical assumptions, OMB and CBO project somewhat different budgetary totals under a continuation of current policies. For fiscal year 1988, the CBO projection would indicate a need for $61 billion in deficit reduction in order to meet the $108 billion deficit required by the Emergency Deficit Reduction and Budget Control Act of 1985 ("Gramm-Rudman-Hollings"). The OMB current services projections would show a need for $42 billion in deficit reduction to meet that target.

Present law requires that the income and outlays of the social security cash benefit trust fund programs be excluded from the budget totals. However, these items are added back in to determine whether or not the "Gramm-Rudman-Hollings" targets are met.

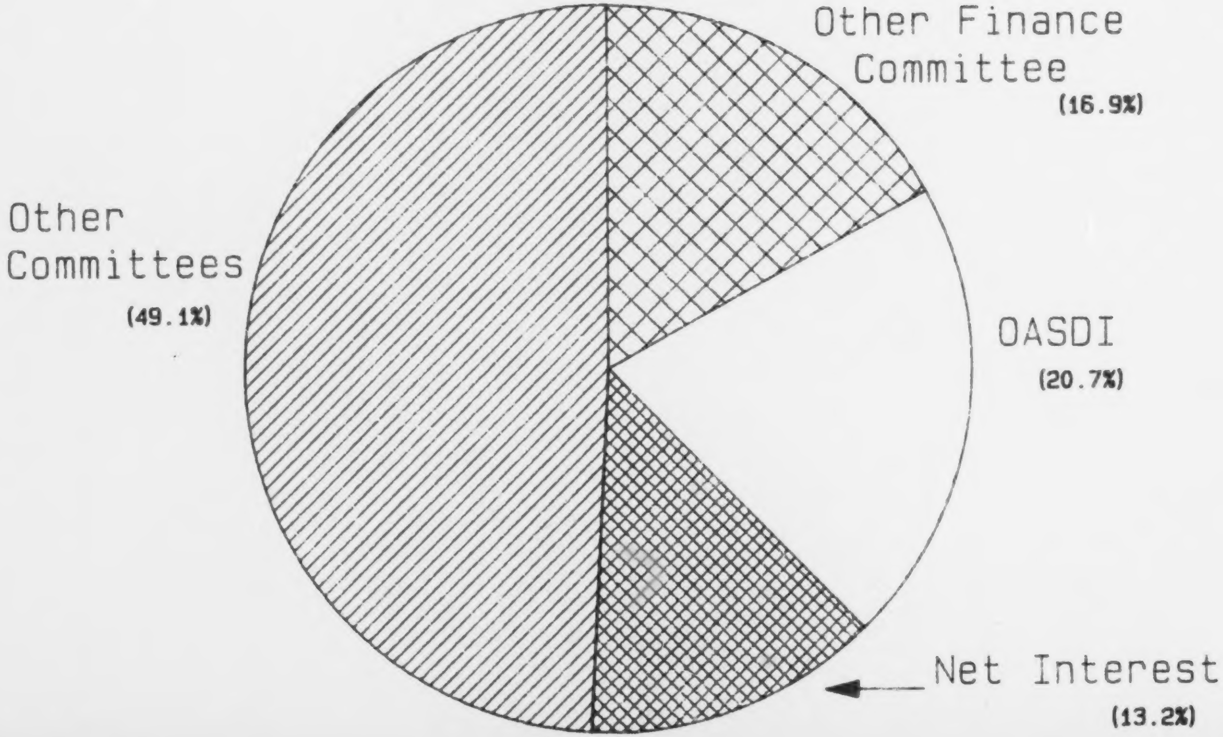
This chart shows the overall budget totals under the budget submitted by the President and also under a continuation of current policy as estimated in the CBO baseline and in the OMB current services budgets.

The totals shown for the President's budget are those appearing in the official budget documents. Each year, the Congressional Budget Office makes a re-estimate of the President's budget using CBO economic and technical assumptions. The formal CBO re-estimate has not yet been completed. However, in a letter to the Budget Committee, the Director of CBO indicated that CBO will likely find the 1988 overall deficit under the President's budget to be about $29 billion to $34 billion higher than the $108 billion projected by OMB.

Chart 4

FEDERAL SPENDING

**Role of Finance Committee Programs**



## Chart 4

### Federal Spending: Role of Finance Committee Programs

Chart 4 shows how the budgetary impact of Finance Committee spending jurisdiction relates to total Federal spending for fiscal year 1988. Amounts shown reflect the current policy estimates of the Congressional Budget Office as follows:

[In billions of dollars]

| | |
|---|---|
| Total spending: | |
| Social Security (OASDI) | 222 |
| Other Finance Committee accounts | *181 |
| Net interest | **141 |
| Non-Finance Committee programs | 525 |
| Total outlays | 1,069 |

*Excluding interest accounts.

**See chart 14 for relationship of net interest to interest on the public debt.

Chart 5

## Major Expenditure Programs Under Finance Committee Jurisdiction

1. Social security cash benefits (see chart 6):
    - A. Old-age and survivors insurance (OASI)
    - B. Disability insurance (DI)
2. Unemployment compensation (UC) (see chart 7)
3. Welfare programs for families (see chart 8):
    - A. Aid to families with dependent children (AFDC)
    - B. Work incentive program (WIN)
    - C. Child support enforcement (CSE)
4. Earned income tax credit (EITC) (see chart 9)
5. Social services (see chart 10)
6. Supplemental security income (SSI) for the aged, blind, and disabled (see chart 11)
7. Health programs (see charts 12–13):
    - A. Medicare
    - B. Medicaid
    - C. Maternal and child health (MCH)
8. Interest on the public debt (see chart 14)

Note: See Appendix E for a more detailed listing of Finance Committee expenditure accounts.

## Chart 5

## Major Expenditure Programs Under Finance Committee Jurisdiction

This chart lists the major programs involving an expenditure of Federal funds which come within the legislative jurisdiction of the Committee on Finance. Each of these programs is covered in more detail in the following charts. Interest on the public debt is included as an expenditure program since it does constitute a significant part of the Federal budget even though the level of expenditure is not subject to legislative control in the same sense as expenditures under the other programs listed.

Proprietary receipts from the public (often referred to as offsetting receipts) are deposited in receipt accounts of the general funds, special funds, or trust funds as a result of the Government's business-type or market-oriented activities, e.g., premiums charged beneficiaries for medical insurance protection provided under part B of Medicare. Such collections are not counted as budget receipts but are offset against total budget authority and outlays.

Under a revision in the Congressional budget procedures adopted in the 95th Congress, refundable tax credits are treated as revenue items insofar as they serve to reduce tax liability and as "outlay" items insofar as they exceed tax liability.

The Senate rules include general revenue sharing within the jurisdiction of the Committee on Finance. However, no such program currently exists.

## Chart 6.—SOCIAL SECURITY CASH BENEFIT (OASDI) TRUST FUNDS

[In billions of dollars]

| | Fiscal year— | | | | | |
|---|---|---|---|---|---|---|
| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
| Present Law:[1] | | | | | | |
| Income to trust funds | 227.4 | 258.7 | 283.5 | 310.2 | 335.0 | 356.0 |
| Outgo from trust funds | 208.0 | 219.6 | 232.9 | 247.4 | 262.4 | 276.6 |
| Difference | 19.4 | 39.0 | 50.6 | 62.7 | 72.6 | 79.4 |
| End of year balance in trust funds | 65.2 | 104.3 | 154.9 | 217.6 | 290.2 | 369.6 |
| Trust fund ratio [2] | 29 | 37 | 53 | 71 | 91 | 113 |

---

[1] These are projections under current law based on the economic and demographic assumptions used in the President's fiscal year 1988 budget.

[2] Assets at the start of the year are defined for the OASI and DI trust funds as assets at the end of the prior year, plus the respective OASI and DI advance tax transfers for October.

Source: SSA, Office of the Actuary, January 8, 1987.

## Chart 6

## Social Security Cash Benefit (OASDI) Trust Funds: Financial Status and Relationship to the Budget

The social security cash benefit programs, Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI), provide income protection to people who work in employment covered by social security and earn a certain minimum number of "quarters of coverage." The OASI program pays benefits to eligible workers age 62 or older and their spouses and children, and to surviving spouses and children of deceased workers. The DI program pays benefits to disabled workers and to their spouses and children.

The Administration estimates that on average in fiscal year 1988 a total of 34.4 million individuals will receive monthly social security benefits from the Old Age and Survivors Insurance Trust Fund, as retired workers or their dependents, or as survivors of deceased workers. In addition, some 4.1 million individuals will receive benefits from the Disability Insurance Trust Fund as disabled workers or as dependents of disabled workers. In total, approximately 38.5 million people will be receiving some type of monthly social security cash benefit.

*The status of the trust funds.*—The President's budget projections under current law for the next 5 years continue to reflect an improving financial outlook for the OASDI trust funds with the combined trust reserve ratio growing from 29 percent at the beginning of fiscal year 1987 to 113 percent at the beginning of fiscal year 1992. In addition, in January 1986 the OASDI Trust Funds repaid the remainder of the $12.4 billion loan made from the HI trust fund to the OASI trust fund in 1982.

The following table displays the economic assumptions underlying the President's budget as they relate to the OASDI program.

ADMINISTRATION'S ECONOMIC ASSUMPTIONS RELATED TO SOCIAL SECURITY

[In percent]

| | Calendar year— | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
| Percent change in CPI | 1.6 | 3.0 | 3.6 | 3.6 | 3.2 | 2.8 | 2.2 |
| Benefit increase [1] | 1.3 | 3.5 | 3.6 | 3.6 | 3.1 | 2.7 | 2.2 |
| Real wage differential | 2.4 | 2.0 | 2.0 | 2.4 | 1.9 | 2.2 | 2.5 |
| Civilian unemployment rate | 7.0 | 6.8 | 6.4 | 6.1 | 5.9 | 5.7 | 5.6 |

[1] Benefit increase payable in January of the specified year.

*Limitation on administrative expenses.*—The 1988 budget requests $3,805 million for administrative expenses, a decrease of $67 million compared to 1987. The Administration states that, in 1988, SSA will continue to work on its systems modernization plan, and that productivity and service improvements are expected to continue over the next few years, as implementation of a modernized claims process is expanded to district offices nationwide. The 1988 request includes a contingency reserve of $50 million. The Administration states that this will maintain SSA's flexibility to deal with unanticipated costs and to manage unanticipated effects of automation on the workforce and the organization. The proposed 1988 level of funding for administering the social security system is $140 million below the CBO current policy baseline projection.

### Social Security Cash Benefit Programs (OASDI): Proposed Legislation

The budget also includes the effects of legislative proposals to expand FICA coverage by eliminating special exemptions that currently exist for income from tips, weekend military reserve duty, certain student and agricultural employment, certain income earned in the employ of relatives, and employer paid life insurance premiums. These proposals would yield over $4.2 billion in increased revenues over the next five years, including an estimated $515 million in 1988. (These changes are described in the section "Effect of proposed legislation and administrative action on receipts.")

Subsequent to the submission of the budget, the Administration transmitted a document that indicates that it intends to propose legislation to reduce the number of required preeffectuation reviews from 65 percent of all favorable disability decisions to 50 percent of allowances and 25 percent of continuances. The 65 percent review requirement was added to the law as part of the Disability Amendments of 1980.

## Chart 7.—UNEMPLOYMENT COMPENSATION

[In billions of dollars]

| Unemployment trust fund | Fiscal year— 1987 | Fiscal year— 1988 |
|---|---|---|
| **Status of State accounts:** | | |
| Income: | | |
| State taxes | 17.4 | 16.2 |
| Interest | 1.5 | 1.6 |
| Federal loans | 2.0 | 1.4 |
| Total | 20.9 | 19.4 |
| Outgo: | | |
| State benefits | 15.8 | 15.6 |
| Federal loans repaid | 1.6 | 2.5 |
| Total | 17.4 | 18.1 |
| Balance at end of year | 23.9 | 25.1 |
| Less outstanding Federal loans | 4.2 | 1.9 |
| Net balance | 19.6 | 23.2 |
| **Status of extended benefit account:** | | |
| Income: | | |
| Federal taxes/interest | 2.0 | 1.0 |
| Transfer from Administration account | (*) | 0.5 |
| Total | 2.1 | 1.5 |
| Outgo: | | |
| Extended benefits | 0.1 | (*) |
| Repayment of general fund advances for extended benefits | 0.8 | 0 |
| Total | 0.9 | (*) |
| Balance at end of year | 1.2 | 2.7 |

## Chart 7.—UNEMPLOYMENT COMPENSATION—Continued

[In billions of dollars]

| Unemployment trust fund | Fiscal year— 1987 | Fiscal year— 1988 |
|---|---|---|
| Less outstanding general fund advances | 0.0 | 0.0 |
| Net balance | 1.2 | 2.7 |
| Status of administration account: | | |
| Income: | | |
| Federal taxes and interest | 3.1 | 3.5 |
| Transfer from other accounts | 0.0 | 0.5 |
| Total | 3.1 | 4.0 |
| Outgo: | | |
| State unemployment insurance service | 1.6 | 1.7 |
| State employment service | 0.9 | 0.9 |
| Federal administration | 0.1 | 0.1 |
| Transfer to extended benefits account | (*) | 0.5 |
| Total | 2.6 | 3.2 |
| Balance at end of year | 1.5 | 2.3 |
| Status of Federal unemployment account: | | |
| Income: | | |
| State repayments | 2.6 | 3.6 |
| General revenue advances | 0.0 | 0.0 |
| Total | 2.6 | 3.6 |

## Chart 7.—UNEMPLOYMENT COMPENSATION—Continued

[In billions of dollars]

| Unemployment trust fund | Fiscal year— | |
|---|---|---|
| | 1987 | 1988 |
| Outgo: | | |
| State loans | 2.0 | 1.4 |
| Repayment of general revenue advances | 0.4 | 3.3 |
| Total | 2.4 | 4.7 |
| Balance at end of year | 1.9 | 0.9 |
| Less outstanding general revenue advances | 5.4 | 2.1 |
| Total | −3.5 | −1.2 |

*Less than $0.05

## Chart 7

## Unemployment Compensation

The unemployment compensation system was enacted as a part of the Social Security Act of 1935 to provide partial wage replacement to covered workers during periods of temporary and involuntary unemployment. The program is a joint Federal-State system composed of programs administered by the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands.

The major provisions of the unemployment compensation program are determined by State laws. In general, State laws establish eligibility requirements, the number of weeks an individual may collect unemployment compensation, the amount of the weekly benefit, the circumstances under which benefits may be denied, the length of denial, and the State unemployment tax structure.

The unemployment compensation system is financed by State and Federal payroll taxes on employers. Under the Federal Unemployment Tax Act (FUTA), a payroll tax of 6.2 percent on the first $7,000 of wages is levied on employers. If the State's unemployment compensation program meets the requirements of Federal law, employers in that State receive a 5.4 percent credit against the 6.2 percent Federal unemployment tax. Thus the effective Federal tax rate in a State which has an approved program is 0.8 percent. The effective tax rate may be higher in States having outstanding unemployment insurance loans from the Federal Government. The tax rate and the net effective tax rate are scheduled to drop by 0.2 percentage points (to 6.0 and 0.6) when the outstanding general fund loans to the extended benefit account have been repaid. This rate reduction is projected to take place as of January 1, 1988.

The Federal tax is used to pay State and Federal administrative costs associated with the unemployment compensation and State employment service programs, to pay most of the cost of operating State employment service programs, to fund 50 percent of the extended benefits paid to unemployed workers under the Federal-State Extended Unemployment Compensation Act of 1970, and to maintain a loan fund from which an individual State may borrow when it lacks funds to pay State unemployment compensation benefits.

States also levy unemployment compensation taxes on covered, private employers in the State. State taxes finance regular State benefits and one-half the cost of extended benefits. State unemployment funds are deposited with the Federal Government in the unemployment trust fund, which is a part of the unified Federal budget. States then pay benefits from this fund.

Most unemployment benefits are paid through the Federal Unemployment Trust Fund which consists of a number of accounts and which draws its funding partly through State payroll taxes, partly through the Federal Unemployment Tax, and partly from general revenues.

Regular State unemployment benefits are paid by the States from individual State accounts in the trust fund. These State accounts are primarily funded by State payroll taxes on employers. However, if a State account is unable to meet its obligations, the State account may be supplemented by loans from a Federal loan account in the trust fund.

In most States, regular State unemployment benefits are payable for a maximum of 26 weeks. In times of high unemployment, the Federal-State extended benefit program goes into effect providing up to 13 additional weeks of benefits.

The extended benefits program triggers on in a State when the insured unemployment rate (IUR) in that State reaches at least 5 percent and is at least 20 percent higher than the rate prevailing on average during the comparable period in the previous 2 years. However, a State may elect an optional trigger which permits the payment of extended benefits when the State IUR is at least 6 percent, even if that rate is not 20 percent higher than the rate prevailing in the 2 prior years.

Federal general revenue funds are advanced as needed to cover shortages in the account which pays the Federal share of extended benefits and in the account from which States borrow to meet shortages in State accounts.

A special program also exists for workers in the railroad industry. This is funded by employer contributions which are paid into a separate trust fund account administered by the Railroad Retirement Board.

There is also a special unemployment benefits program for trade-impacted workers. This is described in chart 15.

The target budget deficits under the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99–177) reflect the impact of unemployment taxes and spending (including both Federal and State accounts). If, however, the target deficits are not met, the automatic "across-the-board" spending reductions are applied to unemployment benefits according to special rules. Regular State benefits and benefits for former Federal employees and ex-servicemen are exempt from any reduction. Extended benefits, as such, are not reduced, but the Federal share of the funding for these benefits is subject to reduction. States have the option of reducing or not reducing the actual benefit payments to reflect the reduction in Federal funding.

## Proposed Legislation

The Administration proposes that railroad unemployment be covered under the Federal-State unemployment insurance system beginning with fiscal year 1988. During a three-year transition period, States could allow railroads to reimburse the actual cost of benefits paid to unemployed rail workers (in place of paying State unemployment taxes). Railroads would continue to pay the taxes which support the current system until its indebtedness to the Railroad Retirement fund is paid off and would also pay the Federal unemployment tax.

BUDGETARY IMPACT OF RAILROAD UNEMPLOYMENT PROPOSAL

[In millions of dollars]

| | Fiscal year— | | |
|---|---|---|---|
| | 1988 | 1989 | 1990 |
| Decreased railroad benefits | −106 | −126 | −112 |
| Increased State benefits | 115 | 144 | 135 |
| Net benefit increase | 9 | 18 | 23 |
| Increased revenues/reimbursements: | | | |
| Federal | 9 | 16 | 14 |
| State | 78 | 145 | 137 |
| Speedup rail deposit schedule | 42 | 0 | 0 |
| Deficit reduction impact | 129 | 161 | 151 |

The Administration budget also indicates that legislation will be proposed to modify the financing of administrative costs of the unemployment program and of the costs of operating the State employment service offices. These costs are now funded (entirely in the case of benefit administration and mostly in the case of the employment service) from the proceeds of the Federal unemployment tax. The amount actually available each year is determined in the appropriations process and allocated among the States under formulas prescribed by the Department of Labor. The details of the proposal have not been released, but it is described in the budget as a proposal to "decentralize authority, financing, and responsibility for administering State unemployment insurance and employment service programs to the States." No budgetary impact for this proposal is shown in the budget.

## Chart 8.—WELFARE PROGRAMS FOR FAMILIES

[In billions of dollars]

| | Fiscal year— | |
|---|---|---|
| | 1987 | 1988 |
| Present law: | | |
| Aid to families with dependent children: | | |
| Welfare payments | 8.8 | [1] 8.4 |
| Administration | 1.0 | 1.0 |
| Work incentive program (WIN) | .1 | (2) |
| Child support: | | |
| Non-AFDC collections | 2.2 | 2.5 |
| AFDC collections | 1.4 | 1.5 |
| Gross Federal share of AFDC collections | .6 | .6 |
| Total AFDC and non-AFDC administrative costs | 1.0 | 1.1 |
| Federal share | .7 | .8 |
| Incentive payments | .2 | .2 |
| Title IV–B (child welfare services and training) | .2 | (3) |
| Title IV–E (foster care, adoption assistance) | [4].8 | .8 |

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[1] Includes a decrease of $349 million due to resumed collection of error rate disallowances in 1988 after a two year statutorily imposed moratorium.

[2] The Administration proposes that the WIN program be terminated. Its funding level is determined by appropriations act.

[3] The Administration proposes to include this program and others in a "generic appropriation" for all of the discretionary social services activities administered by the Office of Human Development Services.

[4] Includes a supplemental request for foster care prior year claims ($127 million) and for adoption assistance prior year and current year program costs ($38 million). This will be made up partially by transfers from other programs.

## Chart 8

## Welfare Programs for Families

### A. AID TO FAMILIES WITH DEPENDENT CHILDREN

The program of Aid to Families with Dependent Children (AFDC) provides Federal matching for State programs of cash assistance to needy families with children in which at least one parent is deceased, disabled, or absent from the home. States, at their option, may also provide benefits for families in which dependency arises from a parent's unemployment. Twenty-six States, Guam and the District of Columbia are currently providing benefits to families with unemployed parents. The amount of Federal matching for AFDC benefits varies from State to State under formulas providing higher percentages in states with lower per capita incomes. The national average contribution by the Federal Government is 54 percent. States establish their own income eligibility and benefit levels. The AFDC program is not subject to reduction under the P.L. 99-177 sequestration procedures.

According to the Administration, under present law the average number of families and recipients receiving monthly payments is as follows:

[In millions]

| | Fiscal year— | | |
|---|---|---|---|
| | 1986 | 1987 est. | 1988 est. |
| Families | 3.7 | 3.8 | 3.8 |
| Individuals | 11.0 | 11.0 | 11.0 |

Administration estimates for Federal program costs under present law are as follows:

[In millions of dollars]

| | Fiscal year— | | |
|---|---|---|---|
| | 1986 | 1987 est. | 1988 est. |
| AFDC benefits [1] | 8,136 | 8,727 | 8,313 |
| Emergency assistance | 87 | 95 | 99 |
| Other assistance payments | 14 | 14 | 14 |

[In millions of dollars]

| | Fiscal year— | | |
|---|---|---|---|
| | 1986 | 1987 est. | 1988 est. |
| State and local administration and training | 1,020 | 1,036 | 1,046 |
| Total | 9,527 | 9,872 | 9,472 |

---

[1] Includes reductions for child support enforcement collections of $362 million in 1986, $400 million in 1987, and $430 million in 1988. Also 1988 includes a decrease of $349 million due to resumed collection of error rate disallowances after a two year statutorily imposed moratorium.

## B. WORK INCENTIVE PROGRAM

The work incentive (WIN) program is charged with administering the work registration requirement for AFDC recipients, and providing employment and training services for those who are required to register or who volunteer for WIN services. The program also provides support services, including child care, for those who need them in order to work or take training. The program is administered jointly at the Federal level by the Department of Health and Human Services and the Department of Labor, and at the State level by the welfare (or social service) agency and the employment service. The Federal matching share is 90 percent.

The Omnibus Budget Reconciliation Act of 1981 included a provision authorizing States to operate a 3-year demonstration program as an alternative to the current WIN program. The demonstration is aimed at testing single-agency administration, and the demonstration must be operated under the direction of the welfare agency. The legislation includes broad waiver authority to allow States to experiment with alternative methods of providing employment and training services. The period for applying for HHS approval of demonstration programs was extended to June 30, 1984 by the Tax Equity and Fiscal Responsibility Act of 1982. Public Law 98-396 (an appropriation act) extended the authority to operate WIN demonstration programs through June 30, 1987, and Public Law 99-500 (the 1987 continuing resolution) further extended this authority to June 30, 1988. Authority to apply to participate has been extended to June 30, 1987.

Funding for WIN was $365 million in fiscal year 1981, $281 million in fiscal year 1982, $271 million in fiscal year 1983, $267 million in fiscal year 1984, and $264 million in fiscal year 1985. A total of $220 million was appropriated for fiscal year 1986 and this appropriation was reduced by $9.5 million under the Public Law 99-177 sequestration. The WIN appropriation for fiscal year 1987 is $110 million, available only for the first nine months of the fiscal year.

## C. CHILD SUPPORT ENFORCEMENT

The purpose of the Child Support Enforcement (CSE) program is to enforce support obligations owed by absent parents to their children, locate absent parents, establish paternity, and obtain child support. The program serves both AFDC and non-AFDC families.

As a condition of eligibility for AFDC, each applicant or recipient must assign the State any right to support which she may have in her own behalf or in behalf of children in the family, and must cooperate with the State in establishing paternity and in obtaining support payments. States are also required to provide child support services to families who are not eligible for AFDC.

The Federal Government pays 70 percent of State and local administrative costs for services to both AFDC and non-AFDC families on an open-end entitlement basis. The 70 percent matching rate is scheduled to decline to 68 percent in 1988 and to 66 percent in 1990. In addition, 90 percent Federal matching is available on an open-end entitlement basis to States that elect to establish an automatic data processing and information retrieval system.

Collections made on behalf of AFDC families are used to offset the cost to the Federal and State governments of welfare payments made to the family. However, the first $50 per month of such collections is passed through to the family. The amounts retained by the government are distributed between the Federal and State governments according to the proportional matching share which each has under the State's AFDC program.

Finally, as an incentive to encourage State and local governments to participate in the program, the law provides for a basic payment equal to a minimum of 6 percent of collections made on behalf of AFDC families plus 6 percent of collections made on behalf of non-AFDC families. The amount of each State's incentive payment could reach a high of 10 percent of AFDC collections plus 10 percent of non-AFDC collections depending on the cost-effectiveness of the State's program. (The incentive payments for non-welfare collections may not exceed 100 percent of the incentive payments for welfare collections. This percentage increases to 105 percent in 1988, 110 percent in 1989, and 115 percent for years thereafter.) These incentive payments are financed from the Federal share of collections.

According to Administration data, child support collections and expenditures under present law are as follows:

[In millions of dollars]

| | Fiscal year— | | |
|---|---|---|---|
| | 1986 | 1987 est. | 1988 est. |
| Total collections | 3,182 | 3,582 | 3,923 |
| AFDC collections | 1,222 | 1,365 | 1,472 |
| (Federal share) | 362 | 400 | 430 |
| Non-AFDC collections | 1,960 | 2,217 | 2,451 |
| Total administrative costs | 926 | 1,040 | 1,129 |
| Federal share | 620 | 734 | 772 |

[1] The Federal share of collections is included in the AFDC appropriation as an offset to AFDC benefits.

The program made collections on behalf of 721,000 AFDC families and 763,000 non-AFDC families in fiscal year 1986.

The Child Support Enforcement Amendments of 1984 require States to adopt numerous procedures to collect overdue child support payments, including mandatory wage withholding, liens against property, and withholding of State income tax refunds, and to permit establishment of paternity until a child's 18th birthday. The 1984 amendments also alter the formula for Federal incentive payments to States for child support collections and extend those incentives to collections made on behalf of non-AFDC children. The amendments gradually reduce the Federal matching share for State and local administrative costs from 70 percent to 68 percent in 1988 and to 66 percent in 1990 and years thereafter. This act also modified the audit and penalty provisions under which the Federal agency monitors State effectiveness.

The 1984 law requires States to continue to provide services to former AFDC families; authorizes the Secretary of the Department of Health and Human Services to make project grants to States for developing new methods of support establishment and collection in interstate cases; extends the Federal income tax return intercept program to non-AFDC families; requires each State to establish guidelines for child support awards within the State; extends Medicaid eligibility for four months to families that lose eligibility for AFDC as a result of child support collections; and urges States to focus on the issues of child support, child custody, visitation rights, and other related domestic issues.

### D. CHILD WELFARE, FOSTER CARE, AND ADOPTION ASSISTANCE

The child welfare services program, authorized under title IV-B of the Social Security Act, is a 75 percent Federal matching grant program for States for provision of child welfare services to children and their families without regard to the family's income. The State allocations are based on the State's per capita income and the size of its population under age 21 compared to all the States. The fiscal year 1986 appropriation for child welfare services was $198.1 million; for child welfare training, $3.7 million; and for research and demonstration, $11.2 million. The fiscal year 1987 appropriation for services was $222.5 million; for training, $3.8 million; and for research and demonstration, $11.3 million.

The foster care program, authorized under title IV-E of the Social Security Act, provides matching funds on an entitlement basis to States for maintenance payments for AFDC-eligible children in foster care. The Federal matching rate for a given State is that State's Medicaid matching rate, and averages about 54 percent nationally. The fiscal year 1986 appropriation for foster care was $501.6 million. The fiscal year 1987 appropriation was $637 million. The 1987 appropriation includes $45 million for grants to States to help title IV-E foster care children age 16 and over prepare for independent living. Although a provision in P.L. 99-272 required the Secretary of HHS to issue regulations for this new entitlement program within 60 days after enactment, regulations have not yet been published and no grants have been made to the States for this purpose.

The adoption assistance program, also authorized under title IV-E, provides Federal matching funds to States on an entitlement basis, at the Medicaid matching rate, for payments to parents who adopt an AFDC- or SSI-eligible child with "special needs." Special needs are defined as a condition, such as ethnic background, age, membership in a sibling group, or mental or physical handicap, which prevents the placement of the child without assistance payments. The amount of assistance provided to parents varies, depending on the economic circumstances of the family and the child's needs. The fiscal year 1986 appropriation for this program was $41.4 million; the fiscal year 1987 appropriation was $59.9 million.

## PROPOSED LEGISLATION

### A. Aid to Families with Dependent Children (AFDC)

The Administration's 1988 budget includes a number of proposals that would have the effect of reducing the cost of the AFDC program. As shown in the following table, the Administration estimates that savings would total $322 million in fiscal year 1988, the Congressional Budget Office estimates savings of $ 240 million.

AFDC PROPOSALS—SAVINGS OR COST (+)

[In millions of dollar]

| | Fiscal year— | | | | | | 3-year total | |
|---|---|---|---|---|---|---|---|---|
| | 1988 | | 1989 | | 1990 | | OMB | CBO |
| | OMB | CMO | OMB | CBO | OMB | CBO | | |
| Reduce Federal administrative matching | 8 | 8 | 8 | 8 | 8 | 8 | 24 | 24 |
| Reduce Federal matching for automated systems | 8 | 8 | 5 | 5 | 4 | 4 | 17 | 17 |
| Greater opportunities through work program.[1] | +8 | +89 | 29 | +244 | 110 | +384 | 131 | +717 |
| End benefits to caretaker when youngest child is 16/limit essential person definition | 106 | 105 | 108 | 110 | 111 | 110 | 325 | 325 |
| End assistance for minor parents not living with parents | 20 | 20 | 21 | 20 | 21 | 20 | 62 | 60 |

## AFDC PROPOSALS--SAVINGS OR COST (+)—Continued

[In millions of dollar]

| | Fiscal year— | | | | | | 3-year total | |
|---|---|---|---|---|---|---|---|---|
| | 1988 | | 1989 | | 1990 | | | |
| | OMB | CMO | OMB | CBO | OMB | CBO | OMB | CBO |
| Require quality control disallowances to be made prospectively | 188 | 188 | 167 | 167 | +43 | 145 | 312 | 500 |
| Total AFDC savings | 322 | 240 | 338 | 66 | 211 | +97 | 871 | 209 |

[1] Includes increased AFDC costs from proposed repeal of work incentive (WIN) program.

*Reduction in Federal administrative matching payments.*—Under present law, the Federal Government reimburses each State for 50 percent of its AFDC administrative and training costs. These Federal matching payments are available to the States on an open-ended entitlement basis. According to the Administration, in fiscal year 1986 total Federal and State administrative costs were about $2 billion. Administrative costs per family varied among States from a low of $174 to a high of $1,083. Costs per family in the median State were $520.

The Administration proposes to reduce Federal matching payments above specified per recipient costs in the AFDC, Medicaid and Food stamp programs, and to eliminate matching payments for high costs. States would be allowed to offset excess costs in one program against cost efficiencies in the others. With respect to the AFDC program, Federal matching would be paid at the current 50 percent rate for State costs up to 125 percent of the median per recipient cost for all States; it would be reduced to 25 percent for costs between 125 and 150 percent of the national median; and there would be no Federal matching for costs above 150 percent of the national median. Adjustments would be made for certain factors, including State employee wage differentials and program—specific adjustments, as determined by the Secretary through a notice and comment process. The Secretary would have authority to determine time periods and data requirements necessary for efficient administration, and for reconciliation of accounts, in order to provide for orderly implementation initially and over time. A different proposal aimed at reducing Federal matching for higher administrative costs was included in the President's budget for fiscal year 1987, but was not approved by the committee.

*Reduce Federal matching for automated systems.*—Under present law, States may receive 90 percent Federal matching for the costs of planning, developing and installing statewide mechanized claims processing and information retrieval systems that are approved by the Secretary.

The Administration proposes to phase out the higher matching rate for these systems, reducing it from 90 to 75 percent in fiscal year 1988, and to 50 percent beginning in fiscal year 1991. Thereafter matching would be paid at the regular 50 percent rate that is available to the States for other administrative costs. A similar proposal was included in the President's budget for fiscal year 1987, but was not approved by the committee.

*Greater Opportunities through Work (GROW) Program.*—The AFDC statute requires that all applicants and recipients of assistance who are not specifically exempt must register for work or training under the work incentive (WIN) program. The statute provides for dual administration by the welfare agency and the employment service.

The Omnibus Budget Reconciliation Act of 1981 included a provision authorizing States to operate 3-year demonstration programs as alternatives to the current WIN program. The demonstration is aimed at testing single-agency administration and must be operated under the direction of the welfare agency. The legislation includes broad waiver authority. These demonstrations have since been extended through June 30, 1988. Twenty-six States operate a WIN demonstration program.

The 1981 Reconciliation Act also authorized States to operate community work experience (CWEP) programs which serve a useful public purpose, and to require AFDC recipients to participate in these programs as a condition of eligibility. In addition, the 1981 Reconciliation Act included a provision under which States are permitted to use any savings from reduced AFDC grant levels to make jobs available on a voluntary basis. Under this approach (work supplementation), recipients may be given a choice between taking a job or depending, at State option, upon a lower AFDC grant. States may use the savings from the reduced AFDC grants to provide or underwrite job opportunities for AFDC eligibles. Another work-related provision was enacted in the Tax Equity and Fiscal Responsibility Act of 1982, which authorized States to require applicants and recipients to participate in job search programs operated by the welfare agency.

The Administration is proposing that the Work Incentive (WIN) program be replaced by a new work and training program called the Greater Opportunities through Work (GROW) program.

The Administration's proposal would extend participation requirements to individuals who are now exempt from AFDC work requirements: recipient children age 16 and over who are not full-time students, persons working in regular employment 30 or more hours a week, young parents under 18 and other parents and relatives responsible for children under 6, persons currently excluded because they are too remote from a WIN site, and parents currently excluded because a second parent is meeting the participation requirement. The requirement would not cover parents who are responsible for the care of a child for the first few months after the child's birth.

Parents under age 18 and recipient children with less than a high school education would be required to continue in school. All other employable recipients would be required to participate in one or more of the following activities: intensive employment search, CWEP, work supplementation or grant diversion, activities provided under the Job Training Partnership Act, time-limited training directed at immediate employment, appropriate State-designed alternative employment-directed programs, regular work on a significant basis, and basic education activities—including English as a second language—for those who lack a high school diploma or graduate equivalency degree (GED). States would continue to have the option of requiring employable applicants to engage in employment search.

The Administration's proposal would require the States to gradually expand their programs over a five-year period to ultimately involve most employable AFDC recipients in work and training activities. A 20 percent participation rate would be required for 1988, increasing by 10 percentage points a year to 60 percent in 1992. There would be a higher target participation rate for teenage recipients and teenage parents, with the rates reaching 90 and 80 percent, respectively, for these two groups in 1992.

Participants in required work, education and training activities would be eligible for supportive services such as child care. These services, and administrative costs associated with the new program, would be eligible for 50 percent Federal matching funds without limitation. However, education and training costs would not be eligible for Federal matching.

*End benefits to employable parents when youngest child is 16; limit essential person definition.*—Current law continues the eligibility of a parent/caretaker so long as the youngest child is eligible for benefits, i.e., until the child reaches 18, or, at the option of the State, age 19 if the child is in school and is expected to complete his course of study before his 19th birthday. Present law also allows States to include in the AFDC grant computation the needs and income of persons who are not themselves eligible for assistance but are in the household. States now have complete flexibility to decide who will be included in the grant as an "essential person."

Under the Administration's proposal the benefit of the employable parent or caretaker relative would be phased out when the youngest child reaches 16. The parent or caretaker relative would be considered employable if he was required to register or participate in the State's work-related programs for AFDC recipients. If the excluded caretaker relative is the parent of the child, his income must be considered as available to the child after application of certain disregards.

The Administration's proposal also includes a definition of "essential persons" who can be included in the grant. The term "essential persons" would be limited to individuals necessary to the household in order to provide personal services because of the incapacity of the caretaker relative, or to provide dependent care services which allow the caretaker relative to work.

*End assistance for minor parents not living with parents.*—Under present law, a minor parent who has a child, and who leaves home, may establish her own household and claim AFDC as a separate family unit. The income of the parents of the minor parent is not automatically counted as available to the minor parent, because they are not sharing the household.

The Administration is proposing that, in the case of a minor parent who is not and has never been married, AFDC may be provided only if the minor parent resides with her parent or legal guardian, unless the State agency determines that (1) the minor parent has no parent or legal guardian who is living and whose whereabouts are known, (2) the health and safety of the minor parent or the dependent child would be jeopardized if she lived in the same residence with the parent or legal guardian, or (3) the minor parent has lived apart from the parent or legal guardian for a period of at least one year prior to the birth of the child, or before claiming aid. In addition, whenever a minor parent is eligible under this provision, the State agency would be required to make the assistance payments to the minor's parents, unless it is determined that the parents will mismanage the payment.

The committee approved a similar provision in 1982, but it was dropped in conference with the House. The committee approved the provision a second time as part of S. 2062, the Omnibus Reconciliation Act of 1983. In 1984, the committee approved the provision again, but it was dropped in conference with the House (H.R. 4170, the Deficit Reduction Act of 1984; P.L. 98-369). The provision was included in the President's budgets for fiscal years 1986 and 1987 but was not approved by the committee.

*Require quality control disallowances to be collected prospectively.*—Under present law, States may be held liable for the cost of benefit payments made in excess of Federally established error tolerance levels, generally referred to as target error rates. P.L. 97-248 established the AFDC target error rate for fiscal year 1983 at 4 percent. It was reduced to 3 percent for fiscal year 1984 and years thereafter. The law provides that Federal penalties for State benefit payments made in excess of target error rates will be applied retrospectively, i.e., after a determination by the Federal Government of the amount of payments that were actually paid erroneously in a prior year. A provision in the Consolidated Omnibus Budget Reconciliation Act of 1985 established a two-year moratorium on Federal collections of State AFDC benefit payments made in excess of target error rates.

The Administration is proposing that State AFDC erroneous payments for 1988 and succeeding years in excess of the 3 percent threshold be withheld prospectively on October 1 of each fiscal year (July 1 for 1988 because of the 2-year moratorium). The withholding would be made on the basis of estimates of State error rates in the coming year. Adjustments to reflect actual liabilities would be made by increasing or decreasing the grants made to the State in the following year. Liabilities for years prior to 1988 would continue to be withheld retrospectively.

## B. Work Incentive (WIN) Program

### WIN PROPOSAL—SAVINGS

[In millions of dollars]

| | Fiscal year— | | | | | | 3-year total | |
|---|---|---|---|---|---|---|---|---|
| | 1988 | | 1989 | | 1990 | | OMB | CBO |
| | OMB | CBO | OMB | CBO | OMB | CBO | | |
| Termination of WIN.... | 0 | 154 | 0 | 162 | 0 | 171 | 0 | 487 |

The appropriation for the WIN program was $365 million in fiscal year 1981, $281 million in fiscal year 1982, $271 million in fiscal year 1983, $267 million in fiscal year 1984, $264 million for fiscal year 1985, $211 million for fiscal year 1986, and $110 million for the first nine months of 1987. The Administration requested that no funds be appropriated for WIN in fiscal years 1983, 1984, 1985, 1986 and 1987, and is repeating the request for 1988. The Administration is proposing a new work and training program, the Greater Opportunities through Work (GROW) program as a replacement for the Work Incentive Program. (See section on AFDC legislative proposals.)

## C. Child Support Enforcement

The President's budget includes a number of proposals to reduce the cost of the child support enforcement program. As shown in the following table, the Administration estimates that savings would total $146 million in fiscal year 1988. CBO estimates savings of $144 million in that year.

### CHILD SUPPORT ENFORCEMENT PROPOSALS—SAVINGS

[In millions of dollars]

| | Fiscal year— | | | | | | 3-year total | |
|---|---|---|---|---|---|---|---|---|
| | 1988 | | 1989 | | 1990 | | OMB | CBO |
| | OMB | CBO | OMB | CBO | OMB | CBO | | |
| Accelerate reduction in Federal matching for administrative expenses................ | 23 | 25 | 24 | 25 | 0 | 0 | 47 | 50 |
| Reduce Federal matching for automated systems................ | 4 | 4 | 4 | 4 | 5 | 5 | 13 | 13 |

CHILD SUPPORT ENFORCEMENT PROPOSALS—SAVINGS—Continued

[In millions of dollars]

| | Fiscal year— | | | | | | 3-year total | |
|---|---|---|---|---|---|---|---|---|
| | 1988 | | 1989 | | 1990 | | | |
| | OMB | CBO | OMB | CBO | OMB | CBO | OMB | CBO |
| Limit matching for incentive payments/require mandatory guidelines | 119 | 115 | 162 | 165 | 166 | 165 | 447 | 445 |
| Total CSE savings | 146 | 144 | 190 | 194 | 171 | 170 | 507 | 508 |

*Accelerate reduction in Federal matching for administrative expenses.*—The Federal Government currently pays 70 percent of State and local administrative costs for services to both AFDC and non-AFDC families on an open-end entitlement basis. The 70 percent matching rate is scheduled to decline to 68 percent in fiscal year 1988, and to 66 percent in 1990.

The Administration is proposing to reduce the Federal matching rate for child support enforcement activities to 66 percent beginning in 1988, two years ahead of the present-law schedule.

*Reduce Federal matching for automated systems development.*—Under current law, States may claim 90 percent Federal matching for costs attributable to planning, designing, developing, installing, or enhancing automatic data processing and information retrieval systems that meet requirements established by the Secretary.

The Administration is proposing to phase out the special 90 percent funding rate that is available for these purposes. The rate would be reduced to 75 percent in fiscal year 1988. Beginning in 1990, the rate for systems would be 66 percent, which is the regular rate for State and local administrative costs. According to the Administration, 33 States are currently involved in some phase of development for Statewide, comprehensive systems at the 90 percent matching rate. Federal spending for this purpose has been as follows: 1984—$5.2 million, 1985—$11.1 million, 1986—$12.0 million, and 1987 (est.)—$31.0 million. The 1987 increase reflects the fact that after several years of preliminary planning, the States will experience increases in expenditures to implement their plans.

*Limit State incentive payments.*—As an incentive to encourage State and local governments to participate in the child support program and to operate their programs on a cost effective basis, the law provides a schedule of Federal incentive payments. Each State is eligible to receive a basic payment equal to a minimum of 6 percent of collections made on behalf of AFDC families, and 6 percent of collections made on behalf of non-AFDC families. The amount of each State's incentive payment can reach a high of 10 percent of AFDC collections, plus 10 percent of non-AFDC collections, depending on the cost-effectiveness of the State's program. There is a limit on the incentive payments for non-AFDC collections. The incentive payments for these collections currently may not exceed 100 percent of incentive payments for AFDC collections. This percentage increases to 105 percent in fiscal year 1988, 110 percent in 1989, and 115 percent in 1990 and years thereafter.

The Administration proposes the AFDC incentive payments be paid only to those States that demonstrate a cost effectiveness ratio of 1.4 or above, i.e., collections on behalf of AFDC families that are at least 1.4 times the costs of making the collections.

*Require States to use mandatory guidelines.*—Effective October 1, 1987, each State must establish guidelines for child support award amounts within the State. The guidelines may be established by law or by judicial or administrative action. The guidelines must be made available to all judges and other officials who have the power to determine child support awards within the State, but need not be binding upon judges or other officials.

The Administration is proposing that States be required to use State guidelines as a rebuttable presumption for setting child support awards. States would also be required to periodically review and modify support orders under appropriate circumstances in accordance with the guidelines. The guidelines would have to meet minimal Federal standards set by the Secretary in regulations, and could not discriminate between AFDC and non-AFDC families.

According to the Administration, some form of guidelines have been implemented in 30 States. Sixteen States use guidelines as a rebuttable presumption either in the courts or under administrative procedures. Advisory guidelines are used in 13 States. The presumptive or advisory determination is left to county discretion in one State.

### D. Child Welfare, Foster Care, and Adoption Assistance

FOSTER CARE AND ADOPTION ASSISTANCE—SAVINGS

[In millions of dollars]

| | Fiscal year— | | | | | | 3-year total | |
|---|---|---|---|---|---|---|---|---|
| | 1988 | | 1989 | | 1990 | | OMB | CBO |
| | OMB | CBO | OMB | CBO | OMB | CBO | | |
| Limit administrative costs: | | | | | | | | |
| Foster care........ | 73 | 73 | 82 | 82 | 86 | 86 | 241 | 241 |
| Adoption assistance..... | 11 | 11 | 13 | 13 | 15 | 15 | 39 | 39 |
| Total foster care/adoption assistance..... | 84 | 84 | 95 | 95 | 101 | 101 | 280 | 280 |

*Child Welfare.*—The Administration's 1988 budget does not include a request for funds for the title IV-B child welfare services program as a separate line item. Instead, the Administration has included child welfare services, along with some other social services programs, in what it refers to as a "generic appropriation request" for all of the Function 500 discretionary social services activities administered by the Office of Human Development Services. (These include other programs not under the jurisdiction of the Committee on Finance—Head Start, Aging Programs, Developmental Disabilities, Child Abuse and Family Violence Programs, and others.) The Administration says that this generic request is not a block grant consolidation proposal, nor intended to change the operation of existing programs. According to the Administration, HHS would continue to operate these programs as "Federally—administered" programs. The Administration says that the purpose of the request is to simplify the budget decision-making process and to focus resource allocation decisions on the overall direction of Federal policy for social services rather than on specific programs.

The budget authority for all programs included in the generic request was $2,244 million in fiscal year 1987. The Administration is requesting a total of $2,210 million in 1988, a reduction of $34 million.

In addition, the Administration is proposing to reallocate $22.5 million out of the $222.5 million appropriated for child welfare services in 1987 to be used for foster care. This is being proposed as part of the Administration's 1987 foster care supplemental request.

*Foster care and adoption assistance.*—The budget includes a supplemental request for fiscal year 1987 for foster care prior year claims ($127 million) and for adoption assistance prior year and current year program costs ($38 million). The Administration is requesting $43 million in new budget authority for this purpose. The remainder would be made up by reallocating funds from the new foster care independent living program ($45 million), child welfare services ($22.5 million), title XX unobligated balances ($43.6 million), and aging research ($11.1 million).

The independent living program, enacted as part of P.L. 99-272, was authorized to operate at a $45 million funding level for each of fiscal years 1987 and 1988. Although the 1987 continuing resolution included an appropriation of $45 million for the program, the regulations for the program have not been published and the funds remain unallocated. It is these funds that the Administration is proposing to reallocate to foster care as part of its 1987 foster care supplemental request. In addition, the Administration proposes that the authorization for independent living grants be repealed.

The Administration is requesting $585 million for the foster care program in 1988, and $97 million for adoption assistance. These levels assume passage of a legislative proposal to limit State administration and training costs to 50 percent of the amount reimbursed for maintenance payments under each program. This proposal would not apply to the administrative costs made reimbursable by the Tax Reform Act of 1986, i.e., the non-recurring expenses of adoption such as legal and court fees. The request also assumes that the provision allowing Federal reimbursement for voluntarily placed foster children, which expires at the end of fiscal year 1987, will be permanently extended.

Subsequent to the submission of the fiscal year 1988 budget to the Congress, the Administration transmitted a document that indicates that it will propose these additional legislative changes: permanently extend conditional ceilings on foster care funds and authority to transfer unused foster care funds to child welfare services; change the foster care base year from 1978 to 1985; change the factor for calculating the foster care cap to the lesser of five percent or the increase in the CPI; make permanent the authorization of Federal matching payments for voluntary placement of foster care children; and require States to make title IV–E claims within one year. The budget does not reflect any savings or costs for these provisions.

# Chart 9.—EARNED INCOME TAX CREDIT

[In billions of dollars]

| | Fiscal year— | |
|---|---|---|
| | 1987 | 1988 |
| Present law: | | |
| Amount in excess of tax liability | 1.5 | 2.9 |
| Amount of tax foregone | .5 | .9 |
| Total | 2.0 | 3.8 |

## Chart 9

## Earned Income Tax Credit

The earned income tax credit (EITC) is currently the only *refundable* tax credit in the Internal Revenue Code. That is, it is the only example of a tax credit that can cause a tax refund to be paid even when an individual tax filer has no income tax liability for the year in question. The EITC is available to low income families that include at least one child who is a dependent of an individual with earned income.

In 1987, the maximum credit is $851 and it phases out as total income rises above $6,920. The credit is totally phased out a level of $15,432. Under a one-time change, the phase-out range will rise in 1988 so that the phase out will begin at about $9,700, and the credit will be completely phased out at about $18,400. The maximum credit in 1988 will be about $865. Thereafter, the amount of earnings and income used to compute and phase out the credit will increase each year under an indexing formula.

The law allows individuals who have no tax liability to claim the credit either as an annual tax refund or to have the credit added to their paychecks throughout the year through reverse withholding. In practice, very few individuals use the reverse withholding procedure.

The significance of the EITC as a source of income for low income workers with children was greatly enhanced by the tax reform legislation in 1986 which provided for increasing the amount of the credit and the level of income at which families remain eligible for all or part of the credit. The 1986 tax legislation also provided for indexing these amounts on an annual basis. The budgetary impact of the EITC will, by fiscal 1989, have increased from its 1986 level of $2 billion to about $5 billion. About 75 percent of the "credit" is paid out as a refund in excess of actual tax liability.

The EITC was originally developed by the Committee on Finance as a part of an overall guaranteed employment program which the Committee proposed in 1972 as a replacement for the existing welfare program. It was approved by the Committee as a way of assuring that private employment would be more attractive than the public jobs proposed in the 1972 bill, and as a way of offsetting the impact of payroll taxes for lower income working families. The credit was called a "work bonus" in 1972, because the Committee viewed it as a way of enhancing the value of work, inasmuch as it was payable only to those with earned income, and, at least up to the phase down point, the amount of the credit increased as earnings from work increased. Thus, unlike welfare programs in which going to work meant a reduction in benefits, the work bonus provided an increase in income for individuals who went to work. The

Committee's 1972 proposals were not enacted, but the Senate passed the EITC as a separate provision on several occasions, and it became law in 1975.

## Chart 10.—SOCIAL SERVICES

[In billions of dollars]

| | Fiscal year— | |
|---|---|---|
| | 1987 | 1988 |
| Present law: | | |
| Title XX block grant | 2.7 | 2.7 |

## Chart 10

## Social Services

In addition to cash benefit programs and medical assistance, the Social Security Act includes provisions in title XX which make Federal funding available for social services. In previous years, title XX legislation authorized matching funds for State social services programs on an entitlement basis. The Federal matching rate was generally 75 percent. In the Omnibus Budget Reconciliation Act of 1981, a new social services block grant program was created to replace the prior Federal-State matching program. A number of requirements on the States, including the requirement of a 25 percent non-Federal match, have been removed, and funding levels have been reduced. The program remains an appropriated entitlement, with each State eligible to receive its share of a national total of $2.4 billion in fiscal year 1982, $2.675 in fiscal year 1983 (with $225 million of this amount available for use in either 1983 or 1984), and $2.7 billion in fiscal year 1984 and years thereafter.

As under the previous statute, allocations are made on the basis of State population. States may determine how their funds are to be used and who may be served. There are no Federal family income requirements, and no fee requirements. Income standards and fees may be imposed at State discretion.

### Proposed legislation

The FY 1988 budget request for the title XX social services block grant program is $2.7 billion, the permanent entitlement level.

## Chart 11.—SUPPLEMENTAL SECURITY INCOME

[In billions of dollars]

| | Fiscal year— | |
|---|---|---|
| | 1987 | 1988 |
| Present law: | | |
| Total expenditures | 11.0 | 12.3 |

## Chart 11

## Supplemental Security Income

Since January 1974, the Social Security Administration has been responsibile for administering a basic income support program for needy aged, blind, and disabled persons called Supplemental Security Income (SSI). This program is funded entirely from general funds. The law establishing the SSI program permits the temporary use of the social security trust funds to meet the administrative costs of the program but provides specific safeguards to assure that those costs are promptly reimbursed to the trust funds by an appropriation from general revenues.

Under present law, the average number of recipients receiving federally administered SSI payments is estimated by the Administration to be as follows:

[In thousands]

| | Fiscal year— | | |
|---|---|---|---|
| | 1986 | 1987 est. | 1988 est. |
| Aged | 1,313 | 1,274 | 1,243 |
| Blind and disabled | 2,520 | 2,659 | 2,786 |
| Total Federal | 3,833 | 3,933 | 4,029 |
| State supplementation only recipients | 339 | 347 | 359 |
| Total SSI recipients | 4,172 | 4,280 | 4,388 |

The maximum Federal monthly payments in calendar year 1987 is $340 for an individual, and $510 for a couple. Annual adjustments are made in January to reflect increases in the cost of living.

The Administration estimates Federal program outlays as follows:

[In millions of dollars]

| | Fiscal year— | | |
|---|---|---|---|
| | 1986 | 1987 est. | 1988 est. |
| Federal Benefits: | | | |
| Current law | 9,315 | 9,790 | 11,210 |
| Beneficiary services | 8 | 12 | 12 |

[In millions of dollars]

| | Fiscal year— | | |
|---|---|---|---|
| | 1986 | 1987 est. | 1988 est. |
| Federal fiscal liability | | 73 | |
| Administrative costs | 1,028 | 1,078 | 1,080 |
| Disability demonstration projects | | | |
| Total | 10,351 | 10,954 | 12,303 |

## Proposed Legislation

The Administration's fiscal year 1988 budget includes no legislative changes in the Supplemental Security Income program. The 1988 budget includes 13 monthly benefit payments; there were 12 monthly payments in each of 1986 and 1987.

## Chart 12.—HEALTH PROGRAMS[1]

[In billions of dollars]

| | Fiscal year— | | | | 3-year total (88–90) |
|---|---|---|---|---|---|
| | 1987 | 1988 | 1989 | 1990 | |
| **Medicare outlays:** | | | | | |
| Part A: | | | | | |
| HHS | 48.3 | 52.6 | 57.1 | 61.1 | 170.8 |
| CBO | 50.1 | 57.1 | 62.6 | 69.8 | 189.5 |
| Part B: | | | | | |
| HHS | 29.9 | 34.0 | 39.0 | 44.1 | 117.1 |
| CBO | 29.7 | 34.2 | 38.9 | 44.0 | 117.2 |
| Total: | | | | | |
| HHS | 78.2 | 86.6 | 96.1 | 105.2 | 287.9 |
| CBO | 79.8 | 91.3 | 101.6 | 113.8 | 306.7 |
| **Medicaid:** | | | | | |
| Federal expenditures: | | | | | |
| HHS | 26.7 | 28.1 | 30.9 | 33.5 | 92.5 |
| CBO | 27.3 | 30.0 | 33.0 | 36.1 | 99.2 |
| State costs: | | | | | |
| HHS | 20.9 | 21.8 | 24.0 | 26.0 | 71.8 |
| CBO | 22.4 | 24.6 | 27.0 | 29.6 | 81.2 |
| Total: | | | | | |
| HHS | 47.6 | 49.9 | 54.9 | 59.5 | 164.3 |
| CBO | 49.7 | 54.6 | 60.1 | 65.7 | 180.4 |
| **Maternal and child health:** | | | | | |
| Block grant: | | | | | |
| HHS | .5 | .5 | | | |
| CBO | .5 | .5 | | | |

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[1] These estimates do not assume enactment of the Administration's budget proposals.

## Chart 12

## Health Programs

### MEDICARE

Medicare is a nationwide health insurance program for 32 million aged and disabled individuals authorized by Title XVIII of the Social Security Act. It consists of two parts: part A, the Hospital Insurance program, provides protection against the costs of inpatient hospital services and related institutional and home health services; part B, the Supplementary Medical Insurance program, is a voluntary program which provides protection against the costs of physicians' services and other medical services.

Under the special rule for sequestrations of Medicare benefits in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177, commonly referred to as "Gramm-Rudman-Hollings"), Medicare outlays for covered services would be reduced by a maximum of 1 percent for fiscal year 1986 and 2 percent for each later year in which there is sequestration. According to P.L. 99-177, however, Medicare administrative expenses are fully sequesterable and are subject to the uniform reduction percentages for nondefense programs.

The Administration estimates that under current law, spending for the Medicare program in FY 1988 will be $86.630 billion, of which $51.521 billion is for part A benefits, $33.071 billion is for part B benefits, $1.862 billion is for administrative and miscellaneous costs, and $176 million is for peer review organizations. The Administration estimates that under current law premiums in FY 1988 will provide $8.3 billion.

The Congressional Budget Office (CBO) estimates that under current law, spending for the Medicare program in FY 1988 will be $91.3 billion, of which $57.1 billion is for part A benefits and costs, and $34.2 billion is for part B benefits and costs. The CBO estimates that premiums in FY 1988 will provide $8.0 billion. The CBO estimates of Medicare spending are $5.4 billion above the HHS current services estimate for fiscal year 1988. This difference represents 6.5 percent of total estimated Medicare spending in fiscal year 1988. The largest difference, $4.9 billion, is under part A. The $4.9 billion dollar difference can be explained by differences in the assumed 1986 hospital insurance program level ($1 billion), by different assumptions concerning the speed with which intermediaries pay certain hospital bills ($1.4 billion), and by differences in assumed program growth rates over and above that resulting from increases in the prospective payment rates ($2.5 billion).

The Administration budget proposes to reduce outlays and increase premiums for FY 1988 under the Medicare program for a net reduction in Federal spending of $5.288 billion below the current program estimate. The Administration budget does not include any proposal for catastrophic coverage.

## MEDICAID

Medicaid is a Federally-aided, State-designed and administered program, authorized by Title XIX of the Social Security Act, which provides medical assistance for certain categories of low income persons who are aged, blind, disabled, or members of families with dependent children. Subject to Federal guidelines, States determine eligibility and the scope of benefits to be provided. The Federal government's share of Medicaid expenditures is tied to a formula inversely related to the per capita income of the State. Federal matching for services varies from 50 percent to 78 percent. Administrative costs are generally matched at 50 percent except for certain items which are subject to higher matching rates. The Deficit Reduction Act of 1984 (P.L. 98–369), the Consolidated Omnibus Budget Reconciliation Act of 1985 (P.L. 99–272), and the Omnibus Budget Reconciliation Act of 1986 (P.L. 99–509) all expanded Medicaid's coverage for pregnant women and young children.

Under the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99–177), Federal Medicaid matching grants to the States—both for program benefits and State administrative expenses—are exempt from sequestrations. Federal Medicaid administrative expenses, however, are fully sequesterable, subject to the uniform reduction percentages for nondefense programs.

The Administraton budget estimates total Federal-State Medicaid costs for fiscal year 1988 under current law to be $50 billion, of which the Federal share is $28.1 billion. Of the Federal amount, $26.7 billion represents payments for benefits. The States share of total Medicaid expenditures for fiscal year 1988 is estimated at $21.8 billion.

The Administration budget proposes to reduce Federal spending for FY 1988 under the Medicaid program by $1.256 billion below the current program estimate.

## MATERNAL AND CHILD HEALTH BLOCK GRANT

Title V of the Social Security Act authorizes the Maternal and Child Health Services Block Grant, which provides funding for the following programs: maternal and child health and services for children with special health care needs, rehabilitation for disabled children receiving supplemental security income, lead-based paint poisoning prevention, genetic disease, sudden infant death syndrome, hemophilia, and adolescent pregnancy. Under the Title V block grant, States determine the level of services. Typically States have supported health services such as well-child checkups and services in maternity clinics. Public Law 97–35 created the block grant by adding to maternal and child health and crippled children services those functions described above. The Federal/State matching requirements were also changed and now require the States to spend 75 cents to receive a dollar. The Secretary of HHS is authorized to set aside between 10 and 15 percent of the amount appropriated to be used for special projects of regional and national significance.

The Omnibus Budget Reconciliation Act of 1986 (P.L. 99-509) increased the authorization for the block grant from $478 million to $553 million for FY 1987, $557 for FY 1988, and $561 for FY 1989 and thereafter. The Additional $75 million for FY 1987 was not appropriated. The Act also required that a certain percentage of the newly authorized amount, if it was appropriated, was to be set aside for projects for screening of newborns for sickle cell anemia and other genetic disorders (7 percent in FY 1987; 8 percent in FY 1988; and 9 percent in FY 1989). Of remaining new amounts, one-third must be used for primary and special needs health care services and projects for children.

Under the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), Maternal and Child Health Services Block Grant funds are fully sequesterable, subject to the uniform reducing percentages for nondefense programs.

The Administration budget proposes to fund the block grant at $478 million, the amount of its FY 1987 appropriation.

## Chart 13.—HEALTH PROGRAMS: ADMINISTRATION PROPOSALS

[In millions of dollars]

| | Fiscal year— | | | Total |
|---|---|---|---|---|
| | 1988 | 1989 | 1990 | |
| **MEDICARE** | | | | |
| Legislative Proposals—Outlays | | | | |
| 1. Direct medical education: | | | | |
| HHS | −310 | −365 | −375 | −1,050 |
| CBO | −360 | −465 | −495 | −1,320 |
| 2. Indirect medical education: | | | | |
| HHS | −835 | −1,165 | −1,265 | −3,265 |
| CBO | −870 | −1,070 | −1,180 | −3,120 |
| 3. PPS update: | | | | |
| HHS | −510 | −620 | −660 | −1,790 |
| CBO | −540 | −1,780 | −3,370 | −5,690 |
| 4. Delay eligibility: | | | | |
| HHS | −295 | −335 | −370 | −1,000 |
| CBO | −270 | −300 | −340 | −910 |
| 5. Expand capitation: | | | | |
| HHS | +50 | +40 | +40 | +130 |
| CBO | +50 | +50 | +50 | +150 |
| 6. Eliminate PIP for disproportionate share hospitals: | | | | |
| HHS | −1,180 | −90 | −100 | −1,370 |
| CBO | −710 | −80 | −90 | −880 |
| 7. Index part B deductible: | | | | |
| HHS | −25 | −75 | −150 | −250 |
| CBO | −20 | −60 | −100 | −180 |
| 8. RAPs payment: | | | | |
| HHS | −10 | −50 | −120 | −180 |
| CBO | −10 | −50 | −120 | −180 |
| 9. Physician payments: | | | | |
| HHS | −190 | −290 | −320 | −800 |
| CBO | −220 | −330 | −385 | −935 |
| 10. Durable medical equipment: | | | | |
| HHS | −15 | −20 | −25 | −60 |
| CBO | −15 | −20 | −25 | −60 |
| 11. Repeal OBRA provisions: | | | | |
| HHS | −323 | −359 | −410 | −1,092 |
| CBO | −115 | −90 | −95 | −300 |

## Chart 13.—HEALTH PROGRAMS: ADMINISTRATION PROPOSALS—Continued

[In millions of dollars]

| | Fiscal year— | | | Total |
|---|---|---|---|---|
| | 1988 | 1989 | 1990 | |
| 12. Prompt payment: | | | | |
| HHS | −890 | −305 | −355 | −1,550 |
| CBO | −1,320 | −150 | −190 | −1,660 |
| 13. Secondary payor: | | | | |
| HHS | −120 | −150 | −165 | −435 |
| CBO | −50 | −55 | −60 | −165 |
| 14. SNF return on equity: | | | | |
| HHS | −30 | −30 | −30 | −90 |
| CBO | −30 | −30 | −30 | −90 |
| 15. Part A bills: | | | | |
| HHS | −4 | −4 | −5 | −13 |
| CBO | −4 | −4 | −5 | −13 |
| 16. Clinical Labs: | | | | |
| HHS | 0 | −140 | −230 | −370 |
| CBO | −0 | −115 | −190 | −305 |
| Subtotal, proposed legislation affecting outlays: | | | | |
| HHS | −4,687 | −3,958 | −4,540 | −13,185 |
| CBO | −4,484 | −4,551 | −6,624 | −15,657 |
| Regulatory Proposals | | | | |
| 1. Outpatient hospital return on equity: | | | | |
| HHS | −30 | −35 | −40 | −105 |
| CBO | −30 | −35 | −40 | −105 |
| 2. Capital: | | | | |
| HHS | 0 | 0 | −600 | −600 |
| CBO | 0 | 0 | −570 | −570 |
| Subtotal—regulatory proposals: | | | | |
| HHS | −30 | −35 | −640 | −705 |
| CBO | −30 | −35 | −610 | −675 |

## Chart 13.—HEALTH PROGRAMS: ADMINISTRATION PROPOSALS—Continued

[In millions of dollars]

| | Fiscal year— | | | Total |
|---|---|---|---|---|
| | 1988 | 1989 | 1990 | |
| Legislative Proposals—Premiums | | | | |
| 1. Increase part B premium: | | | | |
| HHS | −571 | −1,829 | −3,059 | −5,459 |
| CBO | −550 | −1,995 | −2,825 | −5,370 |
| Subtotal—premiums: | | | | |
| HHS | −571 | −1,829 | −3,059 | −5,459 |
| CBO | −550 | −1,995 | −2,825 | −5,370 |
| Total, Medicare: | | | | |
| HHS | −5,288 | −5,822 | −8,239 | −19,349 |
| CBO | −5,074 | −6,601 | −10,093 | −21,768 |
| MEDICAID | | | | |
| 1. Limit Federal payments: | | | | |
| HHS | −1,000 | −2,544 | −3,571 | −7,135 |
| CBO | −1,000 | −2,623 | −3,930 | −7,553 |
| 2. Reduce adminstrative matching rates: | | | | |
| HHS | −275 | −286 | −274 | −855 |
| CBO | −312 | −330 | −350 | −992 |
| 3. Emergency room services:[1] | | | | |
| HHS | −80 | 0 | 0 | −80 |
| CBO | 0 | 0 | 0 | 0 |
| 4. Transfer of assets:[1] | | | | |
| HHS | −20 | 0 | 0 | −20 |
| CBO | 0 | 0 | 0 | 0 |
| 5. Repeal HIO requirements:[1] | | | | |
| HHS | −5 | 0 | 0 | −5 |
| CBO | 0 | 0 | 0 | 0 |
| 6. Tighten inmate preclusion:[1] | | | | |
| HHS | −15 | 0 | 0 | −15 |
| CBO | 0 | 0 | 0 | −15 |
| 7. Merge insepction and survey: | | | | |
| HHS | −5 | −5 | −5 | −15 |
| CBO | −5 | −5 | −5 | −15 |

## Chart 13.—HEALTH PROGRAMS: ADMINISTRATION PROPOSALS—Continued

[In millions of dollars]

| | Fiscal year— | | | Total |
|---|---|---|---|---|
| | 1988 | 1989 | 1990 | |
| 8. Infant mortality:[2] | | | | |
| HHS | +85 | 0 | 0 | +85 |
| CBO | +85 | +85 | +85 | +255 |
| 9. Reduce family planning matching rate:[2] | | | | |
| HHS | −85 | 0 | 0 | −85 |
| CBO | −90 | −100 | −110 | −300 |
| 10. Impact of AFDC proposals:[1] | | | | |
| HHS | −116 | 0 | 0 | −116 |
| CBO | 0 | 0 | 0 | 0 |
| 11. Impact of Medicare proposals:[1] | | | | |
| HHS | +260 | 0 | 0 | +260 |
| CBO | 0 | 0 | 0 | 0 |
| Total, Medicaid: | | | | |
| HHS | −1,256 | −2,835 | −3,890 | −7,981 |
| CBO | −1,322 | −2,973 | −4,311 | −8,606 |

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[1] Estimates for these provisions assume enactment of the cap on Federal payments. HHS estimates that savings in FY 1988 will be achieved without regard to the cap; CBO assumes no savings in any fiscal year because of the cap.

[2] HHS assumes savings and costs in FY 1988 for these provisions, but no effect in later years due to the cap. CBO assumes that the cap will not affect these provisions.

## Chart 13

## Health Programs: Administration Proposals

### MEDICARE

The Administration budget proposes to reduce outlays and increase premiums for fiscal year 1988 under the Medicare program by $5.288 billion. This amount includes $4.687 billion in proposed spending reductions which require legislation, $30 million in proposed spending reductions which can be implemented by regulation, and $571 million in proposed premium increases. This amount does not include increased revenues from proposals to include State and local government workers under Medicare (see section on revenues).

#### Legislative Proposals for Spending Reduction

1. *Reduce payments for direct medical education expenses.*—The Administration budget proposes to reduce the payments to hospitals for direct medical education costs by eliminating payments for overhead costs such as classroom costs (while continuing to pay per resident amounts as under current law), and by eliminating all payments for undergraduate nursing and allied health professional education.

**(–$310 million in FY 1988)**

2. *Reduce payments for indirect medical education expenses.*—The Administration budget proposes to reduce the payments to hospitals for indirect medical education expenses by reducing the add-on percentage per discharge from the current 8.1 percent to 4.05 percent.

**(–$835 million in FY 1988)**

3. *Update factor for PPS hospital payments.*—The Administration budget proposes to restore the Secretary's discretion to establish the annual update factor for adjusting payment amounts to hospitals under the prospective payment system (PPS). The Omnibus Budget Reconciliation Act of 1986 removed this discretion from the Secretary for FY 1988 and set the update factor at the percentage increase in the hospital marketbasket minus 2 percentage points. Current estimates are that the marketbasket increase will be 4.9 percent, yielding a PPS update factor of 2.9 percent. The Administration would assume a PPS update factor of 1.5 percent.

**(–$510 million in FY 1988)**

4. *Delay Medicare eligibility.*—The Administration budget proposes to delay eligibility for Medicare until the first day of the month following the month in which an individual attains age 65.

Current law provides that eligibility begins on the first day of the month in which the individual attains age 65.

**(−$295 million in FY 1988)**

5. *Expand private health plan options.*—The Administration budget proposes to expand the option for Medicare beneficiaries to participate in private health plans with Medicare making payment to the plan on the beneficiary's behalf. Under current law this option exists for beneficiaries who participate in health maintenance organizations (HMOs) or competitive medical plans (CMPs). The proposal would expand the option to allow employer-based plans to provide Medicare benefits to retirees in exchange for a fixed government payment. HMOs and CMPs would also have the option of 3-year contracts in addition to the current 1-year contracts, with a fixed schedule of payment rates.

**(+$50 million in FY 1988)**

6. *Eliminate periodic interim payments to disproportionate share hospitals.*—The Administration budget proposes to eliminate periodic interim payments (PIP) for those hospitals that are eligible for PIP because they serve a disproportionate share of low-income individuals. The Omnibus Budget Reconciliation Act of 1986 eliminated PIP for most hospitals, but continued PIP for certain hospitals serving a specified percentage of low-income patients, for small rural hospitals, and for hospitals that are exempt from the prospective payment system.

**(−$1.18 billion in FY 1988)**

7. *Index part B deductible.*—The Administration budget proposes to index the part B deductible amount so that it would change each year by the same percentage change as the Medicare Economic Index (MEI). The MEI is an index that measures changes in the costs of practicing medicine, and is used for updating the amount Medicare will pay for physicians' services. The current part B deductible is $75. Under this proposal the estimated deductible for 1988 would be $77.

**(−$25 million in FY 1988)**

8. *Payments to hospital-based physicians.*—The Administration budget proposes to pay for radiology, anesthesiology, and pathology services provided to hospital inpatients through a fixed payment per discharge.

**(−$10 million in FY 1988)**

9. *Other physician payments.*—The Administration budget proposes to make selective changes in physician payments:

A. Reduce prevailing charges for cataract surgery by an additional 13 percent. The Omnibus Budget Reconciliation Act of 1986 reduced the prevailing charge for cataract surgery by 10 percent in 1987 and 2 percent in 1988. (−$100 million in FY 1988)

B. Set customary charge for a new physician at 80 percent of the prevailing charge. Under current practices, charges for new physicians are set at 50 percent of the customary charge, which sometimes is higher than the Medicare prevailing charge, thus putting new physicians' charges above some established physicians' charges. (−$70 million in FY 1988)

C. Reduce physician charges for certain overpriced procedures which are not inherently reasonable. (−$10 million in FY 1988)

D. Limit certain charges where there is a large disparity between the charges of a specialist and non-specialist. (−$10 million in FY 1988)

**Total for item 9: (−$190 million in FY 1988)**

10. *Durable medical equipment.*—The Administration budget proposes to require that suppliers of durable medical equipment provide such equipment on a lease/purchase arrangement in any case where the amount of the rental would exceed $120. In the case of participating suppliers (those who agree to take assignment in all Medicare cases), if the rent reaches 125 percent of the purchase price, the equipment would become the property of the patient (lessee). In the case of a nonparticipating supplier, on any unassigned claim if the rent reaches 100 percent of the purchase price, no further Medicare payment would be made. If a nonparticipating supplier takes assignment on a claim, the equipment would become the property of the patient (lessee) if the rent reached 100 percent of the purchase price.

**(−$15 million in FY 1988)**

11. *Repeal certain provisions of Omnibus Budget Reconciliation Act of 1986.*—The Administration budget proposes to repeal the following provisions enacted last year in the Omnibus Budget Reconciliation Act of 1986:

A. Medicare coverage for vision care services provided by an optometrist. (−$210 million in FY 1988)

B. Medicare coverage of additional occupational therapy services. (−$60 million in FY 1988)

C. Medicare coverage of additional services provided by physician assistants. (−$3 million in FY 1988)

D. Payment rates for dialysis facilities. The 1986 Act reduced these rates by $2.00 per treatment. The Administration proposal would reduce them by approximately $5.50 per treatment. (−$50 million in FY 1988)

**Total for item 11: (−$323 million in FY 1988)**

12. *Prompt payment.*—The Administration budget proposes to modify current prompt payment requirements and policies. The Omnibus Budget Reconciliation Act of 1986 required that in FY 1987, 95 percent of all clean claims be paid within 30 days, and that in FY 1988, 95 percent of all clean claims be paid within 26 days. The Administration proposal would apply the 30-day requirement for FY 1988 and thereafter. The Administration proposal would also require that in FY 1988 and thereafter, claims could not be paid any sooner than 28 days after submittal.

(—$890 million in FY 1988)

13. *Medicare as secondary payor.*—The Administration budget proposes to modify the provision of the Omnibus Budget Reconciliation Act of 1986 that made Medicare secondary payor for disabled beneficiaries who also have health insurance through their employer or their spouse's employer. The 1986 Act limited this provision to employers having 100 or more employees. The Administration proposal would make the provision applicable to employers having 20 or more employees, the same threshold as currently applies to secondary payor provisions for Medicare beneficiaries 65 or over.

(—$120 million in FY 1988)

14. *Eliminate return on equity payments for skilled nursing facilities.*—The Administration budget proposes to eliminate payments to skilled nursing facilities for return on equity capital. The Consolidated Omnibus Budget Reconciliation Act of 1985 eliminated these payments for inpatient hospital services.

(—$30 million in FY 1988)

15. *Process part A bills on flow basis.*—The Administration budget proposes to assign the responsibility for collecting deductibles and coinsurance from beneficiaries who stay in more than one hospital during a spell of illness in the order in which the hospitals submit the claims.

(—$4 million in FY 1988)

16. *Clinical lab payments.*—The Administration budget proposes to reduce payments for clinical laboratory services. In 1984, two fee schedules were established. The fee schedule for laboratory tests performed in physicians' offices or independent laboratories was established at 60 percent of the prevailing charge, and the fee schedule for tests performed in a hospital laboratory for inpatients was established at 62 percent of the prevailing charge. Both schedules are updated annually by the percentage change in the Consumer Price Index. The higher fee schedule is now limited to only those hospitals that have a 24-hour per day emergency room. The proposal would reduce both fee schedules, effective January 1, 1989, to the amounts that would be in effect if the schedules were originally set at 55 percent and 57 percent, respectively, of the prevailing charge (rather than 60 percent and 62 percent).

(—$0 in FY 1988)

## REGULATORY PROPOSALS FOR SPENDING REDUCTIONS

1. *Eliminate return on equity payments for hospital outpatient departments.*—The Administration budget proposes to eliminate payments to hospital outpatient departments for return on equity capital. The Consolidated Omnibus Budget Reconciliation Act of 1985 eliminated these payments for inpatient hospital services.

(—$30 million in FY 1988)

2. *Establish prospective payment for capital costs.*—The Administration budget proposes to incorporate payment for capital costs of hospitals into the prospective payment system (PPS). Capital costs

are not included in the PPS, but the Secretary has the authority to include them beginning in FY 1988. The Omnibus Budget Reconciliation Act of 1986 provided for reductions in payments for capital costs of 3.5 percent in FY 1987, 7 percent in FY 1988, and 10 percent in FY 1989. It also specified that any system established by the Secretary for paying for capital costs must be budget neutral with those reductions, and could not apply to sole community hospitals before FY 1990.

The proposal would phase capital into the PPS over a two-year transition for equipment and a ten-year transition for fixed plant. During the transition, the hospital-specific portion would be based on the hospital's actual capital costs for that year, and the national portion would be based on a national average based on FY 1984 costs, trended forward to FY 1987 by actual Medicare capital increases, and increased thereafter by the PPS update factor, adjusted to reflect capital costs.

The total payment amounts for FY 1988 and FY 1989 would be adjusted as necessary to achieve budget neutrality required by the 1986 Act.

(−$0 million in FY 1988)

### LEGISLATIVE PROPOSAL FOR INCREASED PREMIUM

1. *Increase part B premium for new enrollees.*—The Administration budget proposes to increase premiums for new enrollees under part B of Medicare. Current law provides that the part B premium must cover 25 percent of the program costs until 1989. The Administration would set three premium amounts:

A. The premium for current enrollees would be set to cover 25 percent of program costs permanently.

B. The premium for new enrollees (enrolling in 1988 or thereafter) would be set to cover 35 percent of program costs.

C. The premium for enrollees whose premium is paid by a third party (primarily Medicaid) would be set to cover 50 percent of program costs.

(−$571 million in FY 1988)

### MEDICAID

The Administration budget proposes to reduce outlays for fiscal year 1988 under the Medicaid program by $1.256 billion. All reductions require legislation.

1. *Limit on Federal Medicaid funding.*—The Administration budget proposes to limit Federal payments to States for Medicaid services to $25.4 billion in fiscal year 1988. This represents a $1.3 billion reduction in Federal outlays below the current services projection. Federal payments for future fiscal years would be indexed to changes in the medical care component of the Consumer Price Index. For fiscal year 1988 only, a $300 million contingency fund would be available for States experiencing unusual cost increases despite cost control efforts. The budget also proposes to provide States with greater flexibility in order to reduce program costs, and proposes to temporarily increase matching rates for certain capitated payment initiatives.

**(−$1 billion in FY 1988)**

2. *Elimination of special administrative matching rates.*—The Administration budget proposes to eliminate special matching rates for administrative costs. Current law provides that State administrative costs are generally matched by the Federal Government at 50 percent. However, there are higher matching rates for some particular costs: mechanized claims processing (90 percent for development, 75 percent for operation); compensation and training of medical personnel (75 percent); family planning services (90 percent); and fraud control units (90 percent for first 3 years, 75 percent thereafter, but subject to a limit per year). The Administration budget proposes to match all these costs at 50 percent.

The Administration budget also proposes to limit matching to 25 percent for administrative costs that exceed 135 percent of the national median per recipient, and not match at all those administrative costs that exceed 160 percent of the national median per recipient.

**(−$275 million in FY 1988)**

3. *Emergency room services.*—The Administration budget proposes to limit reimbursement for physican services provided in a hospital emergency room if the case is not urgent. Reimbursement would be limited to a percentage of the level charged for similar services in a physician's office.

**(−$80 million in FY 1988)**

4. *Transfer of assets.*—The Administration budget proposes to require States to impose eligibility restrictions on applicants who transfer assets for less than fair market value, and who would not be eligible for Medicaid if they had kept the assets. The requirement would be similar to the rule now in effect for SSI benefits, which applies to assets transferred within 2 years before application.

**(−$20 million in FY 1988)**

5. *Repeal health insuring organization restrictions.*—The Administration budget proposes to repeal the provisions which require that a health insuring organization (HIO) meet the same requirements as a health maintenance organization (HMO) in order to participate in the Medicaid program.

**(−$5 million in FY 1988)**

6. *Tighten preclusion of inmates.*—The Administration budget proposes to tighten the preclusion of Federal matching for services provided to inmates of public institutions, including services provided on a contract basis to individuals under court jurisdiction.

**(−$15 million in FY 1988)**

7. *Merge inspection of care with survey and certification.*—The Administration budget proposes to merge the patient care and facility certification inspection processes in long-term care facilities.

**(−$5 million in FY 1988)**

8. *Infant mortality initiative.*—The Administration budget proposes to provide comprehensive case management services to pregnant women, including those at high risk of having low birth weight babies, and teenage pregnancies. The initiative would be carried out through waivers and demonstration projects and be coordinated with other Federal programs serving pregnant women.

**(+$85 million in FY 1988)**

9. *Reduce matching rate for family planning services.*—The Administration budget proposes to eliminate the special 90 percent matching rate for family planning services. These services would be matched at the State's regular Federal medical assistance percentage.

**(−$85 million in FY 1988)**

10. *Impact of AFDC proposals.*—The Administration budget proposes to change requirements for the Aid to Families with Dependent Children (AFDC). Since AFDC eligibility also makes individuals eligible for Medicaid, those proposals would reduce Medicaid outlays.

**(−$116 million in FY 1988)**

11. *Impact of Medicare proposals.*—The Administration budget proposes to delay eligibility for Medicare, and to increase premiums for Medicare beneficiaries whose premiums are paid by Medicaid. These proposals would increase Medicaid outlays.

**(+$260 million in FY 1988)**

### MATERNAL AND CHILD HEALTH BLOCK GRANT

The Administration budget proposes to fund the Maternal and Child Health Block Grant at $478 million in fiscal year 1988. This is the same level as the block grant is currently funded, and is $79 million below the full authorization.

## Chart 14.—INTEREST

[In billions]

| | Fiscal year— | | |
|---|---|---|---|
| | 1988 | 1989 | 1990 |
| A. Administration Budget: | | | |
| Gross interest: | | | |
| Interest on the public debt | 198 | 205 | 207 |
| Interest on tax refunds | 2 | 2 | 2 |
| Offsets: | | | |
| Interest paid to trust funds | −38 | −44 | −51 |
| Interest on Federal Financing Bank loans | −14 | −14 | −14 |
| Other offsetting interest | −8 | −7 | −7 |
| Net interest | 139 | 142 | 139 |
| Federal Reserve deposits | −15 | −16 | −16 |
| Budgetary impact of interest | 123 | 126 | 123 |
| B. CBO baseline: | | | |
| Interest on the public debt | 202 | 213 | 223 |
| Net interest | 141 | 147 | 152 |

## Chart 14

### Interest

One of the budget accounts assigned to Finance Committee jurisdiction is the account entitled Interest on the Public Debt. This account reflects the total interest payments made on governmental securities. The major determinants of the amount of outlays for this account are the accumulated debt from prior years and the interest rate. To a lesser extent, the level of deficit for the current year also affects interest outlays. At current debt levels, a one percent change in interest rates will affect outlays in this category by about $23 billion.

The overall impact of interest on the budget deficit is offset by several factors shown on this chart. The largest offset is interest paid to trust funds. Since the income of trust funds is counted towards determining the "Gramm-Rudman-Hollings" deficit targets, the outlay effect of interest paid to trust funds is offset by the income effect of that same interest received by trust funds.* Other interest receipts and particularly interest on Federal Financing Bank loans also offset a portion of interest on the public debt. In addition, the budgetary impact of interest is further reduced by the fact that a portion of outstanding Federal securities are held by Federal Reserve Banks. The bulk of the interest earned on those securities is deposited back to the Treasury by the Federal Reserve.

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*Although trust fund interest earnings are used to partially offset the outlays for interest on the public debt from a short-term budgetary perspective, those interest payments do represent a long-term commitment of the Federal government to the trust fund program which ultimately will have to be redeemed to meet the needs of the program.

# Chart 15.—TRADE; CUSTOMS USER FEES; PENSION BENEFIT GUARANTY CORPORATION: ADMINISTRATION PROPOSALS

[In millions]

| | Fiscal year— | | | Total |
|---|---|---|---|---|
| | 1988 | 1989 | 1990 | |
| End trade adjustment benefits... | −101 | −138 | −129 | −368 |
| Expand customs user fees......... | 166 | 66 | 533 | 765 |
| Increase Pension Benefit Guaranty Corporation Fees*.. | −347 | −355 | −245 | −947 |

* Offsetting receipts.

## Chart 15

## Trade; Customs User Fees; Pension Benefit Guaranty Corporation: Administration Proposals

### TRADE ADJUSTMENT ASSISTANCE

The Trade Adjustment Assistance (TAA) program has provided benefits to workers laid off and firms injured on account of import competition. Under the program for workers, administered by the Labor Department, certified workers are entitled to cash payments essentially equivalent to extended unemployment insurance benefits, and they may also receive job-search, relocation and retraining benefits. The program for firms, administered by the Commerce Department, makes available to approved firms technical assistance.

Originally established under the Trade Expansion Act of 1962, the TAA program was authorized until September 30, 1985. Thereafter, it was temporarily extended several times. Authority for the program lapsed temporarily on December 19, 1985, but was restored in April 1986 both retroactively to December 19, 1985 and prospectively for six years to September 30, 1991 with enactment of the Consolidated Budget Reconciliation Act of 1985.

In its 1988 budget request, the Administration proposes that the entire TAA program be repealed. Legislation is being proposed which would replace the current trade adjustment program for workers with a new worker adjustment assistance program.

In fiscal year 1984, approximately $65 million was spent on the worker TAA programs and approximately $26 million on the firm TAA programs, for a total of $91 million. In fiscal year 1985, the worker programs cost approximately $79 million and the firm programs approximately $20 million, for a total of $99 million. In fiscal year 1986, the worker program was $143.8 million and $15.8 million for the firm program. The amount appropriated for fiscal year 1987 for the worker program was $205.9 million and for the firm program is $15.8 million.

TRADE ADJUSTMENT

[In millions of dollars]

| | Fiscal year— | |
|---|---|---|
| | 1986 | 1987 |
| Allowances | 119.0 | 176.0 |
| Training | 24.8 | 29.9 |
| Total | 143.8 | 205.9 |

TRADE ADJUSTMENT—Continued

[In millions of dollars]

| | Fiscal year— | |
|---|---|---|
| | 1986 | 1987 |
| Firms | 15.8 | 15.8 |
| Total | 159.6 | 221.7 |

## Customs User Fees

In the President's fiscal year 1987 budget, a customs user fee was proposed. In that budget, the fee was scored as an offsetting receipt rather than as a revenue item. The 1986 Budget Reconciliation Act established a customs merchandise user fee, which went into effect on December 1, 1986 as a charge of 0.22 percent ad valorem in fiscal year 1987 and 0.17 ad valorem in fiscal years 1988 and 1989 on entries of imported merchandise. There is a separate schedule of customs user fees (conveyance fees) to cover Customs' costs of processing the arrival of vessels, trucks, trains, private boats and planes, and passengers. The legislation adopted last year provides for the fees to be deposited into a dedicated account and to be available, subject to authorization and appropriation, for the salaries and expenses of the Customs Service for commercial operations.

The President's fiscal year 1988 budget does not treat the customs user fee as an offsetting receipt but as a revenue item. Although the fee has been in effect since December 1 and a 1987 authorization was enacted, the President's budget does not request any appropriation for the 1987 fiscal year of the funds which are now being collected. For fiscal year 1988 the budget proposes to utilize $499 million from the customs user fee account towards meeting the expenses of the Customs Service. Overall, the amount requested for the Customs Service for fiscal year 1988 is lower than the fiscal year 1987 funding level.

The Administration proposes to expand the customs user fee by eliminating the present law exemption for articles which have some U.S.-made components or materials. The budget also proposes to extend the fee which is scheduled to expire at the end of fiscal year 1989:

## CUSTOMS USER FEES

[In millions]

| | Fiscal year— | | | |
|---|---|---|---|---|
| | 1987 | 1988 | 1989 | 1990 |
| **Administration Estimates** | | | | |
| Present law: | | | | |
| Conveyance fees | 152 | 160 | 168 | 9 |
| Ad valorem fees | 417 | 387 | 450 | 22 |
| Total | 569 | 547 | 618 | 31 |
| Administration proposal: Increased ad valorem fees | 15 | 166 | 66 | 533 |
| Grand total | 584 | 713 | 684 | 564 |
| **CBO Estimates** | | | | |
| Present law: | | | | |
| Conveyance fees | 220 | 230 | 240 | 12 |
| Ad valorem fees | 506 | 502 | 542 | 27 |
| Total | 726 | 732 | 782 | 39 |
| Administration proposal: Increased ad valorem fees | 56 | 66 | −26 | 396 |
| Grand total | 782 | 798 | 756 | 435 |

### PENSION BENEFIT GUARANTY CORPORATION

The Pension Benefit Guaranty Corporation (PBGC) pays benefits to employees whose employers terminate an underfunded pension plan. Employers make a premium payment to the PBGC for this protection. The current premium is $8.50 per participant. The PBGC has limited authority to impose a variable rate premium.

The President's budget proposal provides that legislation will be proposed to ameliorate the weak financial position of the PBGC. The proposed legislation would permit the PBGC to charge higher premiums to those employers who do not adequately fund their pension promises. The current minimum funding requirements would be revised to protect both the pensions expected by workers and the PBGC.

# Chart 16—REVENUES: PRESENT LAW

[Dollars in billions]

| | Administration projection, fiscal year— | | CBO baseline projection fiscal year— | |
|---|---|---|---|---|
| | 1987 | 1988 | 1987 | 1988 |
| Individual income tax | 364 | 392 | 361 | 381 |
| Corporation income tax | 105 | 116 | 101 | 119 |
| Social insurance taxes | 302 | 331 | 301 | 329 |
| Excise taxes | 33 | 32 | 33 | 32 |
| Estate and gift taxes | 6 | 6 | 6 | 6 |
| Customs duties | 14 | 15 | 14 | 15 |
| Miscellaneous receipts | 19 | 19 | 18 | 18 |
| Total | 842 | 910 | 834 | 900 |

## Chart 16

## Revenues: Present Law

Federal revenues are in large part composed of receipts from income and payroll taxes. The Administration budget estimates that in fiscal year 1987, these revenues, together with receipts from excise taxes, estate and gift taxes and other revenue sources will yield a total of $842.3 billion under present law. For fiscal year 1988, the Administration budget projects a revenue yield of $910.4 billion under present law. Were the Administration proposals enacted, those amounts would be $842.4 for fiscal year 1987 and $916.6 for fiscal year 1988.

Income taxes paid by individuals are estimated to be $391.7 billion for fiscal year 1988 under present law. Were the Administration's proposals enacted, that amount would increase to $392.8 billion. Revenues from this source, the largest single source of Federal revenue, will amount to 38 percent of the total Federal revenue.

Income taxes paid by corporations are estimated at $116.2 billion for fiscal year 1988 under present law. Were the Administration's proposals enacted, that amount would increase to $117.2 billion. These revenues amount to 11 percent of total Federal revenue.

Social insurance taxes and contributions, composed of social security and other payroll taxes, unemployment insurance taxes and deposits, and Federal employee retirement contributions, are estimated at $330.7 billion under present law. Were the Administration's proposals enacted that amount would increase to $333.2 billion. Receipts from these sources in fiscal year 1988 will account for 33 percent of the total Federal revenue.

Excise taxes imposed on selected commodities, services, and activities are expected to provide $32.2 billion during fiscal year 1988 under present law. Were the Administration's proposals enacted, that amount would increase to $33.4 billion. These receipts will amount to 3 percent of total Federal revenue.

Estate and gift taxes imposed on the value of property held at death and on inter vivos transfers of property are projected to produce $5.8 billion during fiscal year 1988 under present law and under the Administration's proposals.

Customs duties levied on imports, other taxes, and miscellaneous receipts are expected to total $33.7 billion for fiscal year 1988 under present law. Were the Administration's proposals enacted, that amount would increase to $34.2 billion.

## Chart 17.—EFFECT OF PROPOSED LEGISLATION AND ADMINISTRATIVE ACTION ON RECEIPTS [1]

[In billions of dollars]

| | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|
| 1. IRS initiatives | | 2.4 | 3.1 | 3.3 |
| 2. Extend HI coverage to State and local employees. | | 1.6 | 2.2 | 2.2 |
| 3. Repeal gasoline and other highway tax exemptions.[2] | | 0.6 | 0.6 | 0.6 |
| 4. Increase contribution to rail industry pension fund. | | 0.1 | 0.3 | 0.3 |
| 5. Require employer tax on total tips.[2] | | 0.2 | 0.3 | 0.3 |
| 6. Increase tax on coal production.[2] | | 0.3 | 0.3 | 0.3 |
| 7. Extend OASDHI coverage to certain earnings. | | 0.3 | 0.3 | 0.4 |
| 8. Customs user fee [2] | (*) | 0.1 | 0.1 | 0.5 |
| 9. Railroad unemployment insurance coverage. | | 0.1 | 0.2 | 0.2 |
| 10. IRS user fees | | 0.1 | 0.1 | 0.1 |
| 11. Railroad windfall subsidy financing. | | 0.1 | 0.1 | 0.1 |
| 12. D.C. employer contribution to CSRS. | | (*) | (*) | (*) |
| 13. Nuclear power plant fees | 0.1 | 0.1 | 0.1 | 0.1 |
| 14. Other | | 0.1 | 0.4 | 0.4 |
| Total | 0.1 | 6.1 | 8.0 | 8.6 |

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*$50 million or less.

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects on the economy are taken into account in forecasting incomes, however, and in this way affect the receipts estimates by major sources and in total.

[2] Net of income tax offsets.

## Chart 17

## Effect of Proposed Legislation and Administrative Action on Receipts

### ADMINISTRATION PROPOSALS

The Administration has proposed a number of changes to extend and increase certain payroll and excise taxes and to improve compliance with the tax laws. The Administration's budget does not include any major income tax proposals.

### DESCRIPTION OF PROPOSALS

1(a). *Internal Revenue Service (IRS) Initiative.*—The Administration proposes to increase IRS funding in an amount necessary to increase fiscal year receipts by $2.4 billion. It is anticipated that the proposal would be for $200 million in supplemental funding for fiscal year 1987 and a 14% increase for fiscal year 1988 (from $4.45 billion to $5.07 billion).

2. *Extension of Medicare Hospital Insurance (HI) Coverage To All State and Local Government Employees.*—The Administration proposes to extend mandatory Medicare hospital insurance to state and local employees hired on or before March 31, 1986. Employees hired after that date are covered under current law. This proposal is estimated by the Administration to increase fiscal year 1988 receipts by $1.6 billion.

3. *Repeal Gasohol, Bus and State and Local Government Exemptions.*—Under current law, alcohol fuels, neat methanol and ethanol are partially exempt from the excise tax on gasoline and special motor fuels. Public and private bus operators are largely exempt from existing tire, gasoline and diesel fuel excise taxes. State and local governments are exempt from those taxes. The Administration proposes repeal of all the exemptions effective October 1, 1987. The Administration estimates that this proposal will increase fiscal year 1988 receipts by $0.8 billion ($0.6 billion net of income tax effects).

4. *Increase Contribution to the Rail Industry Pension Fund.*—The Administration proposes to increase rail pension contributions (the "Tier II" tax) by 3.0 percent (1.5 percent effective January 1, 1988, and 1.5 percent effective January 1, 1989). The Administration estimates that this proposal will increase fiscal year 1988 receipts by $0.1 billion.

5. *Require Employers to Pay the Employer Portion of the Social Security (OASDHI) Payroll Tax on Total Tips.*—Under current law, employees must pay their portion of the OASDHI payroll tax on the total amount of cash tips, and benefits are based on the total amount of cash tips. The liability of employers is generally limited to the portion of tips considered to be wages under the Federal minimum wage law. The Administration proposes that the employ-

er contribution be based on the total of amount of cash tips. The Administration estimates that this proposal will increase fiscal year 1988 receipts by $0.2 billion.

6. *Black Lung Disability Trust Fund.*—Black lung disability benefits are paid to coal miners (or to their survivors) who have been determined to be totally disabled by black lung disease. Benefits for miners determined to be eligible prior to 1973 are paid for by the general fund of the Treasury. Benefits for miners determined to be eligible since 1973 are the responsibility of the coal mining industry—either the coal mine operator found responsible for an individual miner's disease or the industry as a whole through the Black Lung Disability Trust Fund. This fund is financed primarily by an excise tax on coal production. Additional funding includes repayable advances from the Treasury when trust fund liabilities exceed income. The Trust Fund had a cumulative deficit of $2.88 billion at the end of fiscal year 1986. The Administration proposes an increase in the coal excise tax in an amount necessary to increase trust fund receipts by $0.4 billion in fiscal year 1988. The Administration also proposes to repeal the requirement that the trust fund's interest costs are paid from general revenues. The Administration estimates that the proposed changes, together with unspecified benefit reforms, would eliminate the trust fund deficit by fiscal year 2007. Also, the Administration proposes that income replacement benefits received by miners disabled by black lung disease be included in the recipient's income for income tax purposes.

7. *Extension of Social Security (OASDHI) Coverage to Certain Earnings.*—The Administration proposes to extend OASDHI coverage to inactive duty earnings of Armed Forces reservists, to certain students, to certain agricultural workers, to children age 18–21 employed by their parents, and to spouses employed by the other spouse. The Administration also proposes to conform the social security treatment of group term life insurance to the income tax treatment. Under current law, the cost of employer-provided group term life insurance is not included in the social security wage base, but it is included in the recipient's income for income tax purposes to the extent the coverage exceeds $50,000 or is provided in a discriminatory fashion. The Administration estimates that these proposals will increase fiscal year 1988 receipts by $0.3 billion.

8. *Customs User Fee.*—A user fee is applied to all formal entries of merchandise imported for consumption. The fee is scheduled to expire on September 30, 1989. The Administration proposes to extend the fee beyond its scheduled expiration and to repeal the current law exemption for goods with American made components. The Administration estimates that this proposal would increase fiscal year 1988 receipts by $0.1 billion.

9. *Extension of Federal/State Unemployment Insurance Coverage to Railroad Employment.*—Railroad unemployment is not covered by the Federal/State unemployment insurance system. The separate Railroad Sickness and Unemployment Insurance Fund (RSUI), which is financed by payroll taxes paid by rail employers, is in debt to the rail pension fund to cover benefit payment shortfalls. The Administration proposes to extend Federal/State unemployment coverage to railroad employment. The Administration estimates

that this proposal would increase fiscal year 1988 receipts by $0.1 billion.

10. *Internal Revenue Service (IRS) User Fee.*—The Administration is again proposing that the IRS impose a user fee on letters of determination and private letter rulings. These fees, proposed to become effective October 1, 1987, are estimated by the Administration to increase fiscal year 1988 receipts by $0.1 billion.

11. *Railroad Payment of a Portion of Dual Benefit Costs.*—When dual entitlement to social security and railroad retirement benefits was eliminated by the 1974 Railroad Retirement amendments, certain categories of rail workers were grandfathered into a special additional benefit. This "dual benefit" payment is now financed entirely from general Federal revenues. The Administration proposes to require rail sector financing of 25 percent of the cost of these benefits. This change, proposed to become effective October 1, 1987, is estimated by the Administration to increase fiscal year 1988 receipts by $0.1 billion.

12. *Windfall Profit Tax.*—The Administration proposes repeal of the Windfall Profit Tax.

13. *Airport and Airway Trust Fund.*—Under current law, the excise taxes which support the Airport and Airway Trust Fund are scheduled to expire on December 31, 1987. The Administration proposes extension of those taxes through December 31, 1989.

14. *Travel Tax.*—The Administration proposes imposition of a new $1 per ticket tax for international travel to and from the United States, its possessions and its territories by airline or cruise ship. Exceptions would be provided for travel to and from Mexico and Canada and for travel originating in U.S. possessions or territories.

15. *Coast Guard User Fee.*—The Administration proposes user fees for some Coast Guard services. The Administration estimates that the fee will increase fiscal year 1988 receipts by $355 million.

16. *Bureau of Alcohol, Tobacco, and Firearms (BATF) Fees.*—Under current law, BATF imposes licensing fees and taxes on various firearms, but generally does not charge fees for permits related to alcohol and tobacco products. Also, occupational taxes are imposed on wholesale and retail dealers in liquor, wine and beer. The Administration proposes increasing fees for unspecified services provided by BATF.

Chart 17 is taken from the Administration's budget for fiscal year 1988. It includes items not within the Committee on Finance's jurisdiction (such as D.C. employer contributions to CSRS and Nuclear power plant fees) and does not include some items within the jurisdiction of the Committee on Finance (such as the Airport and Airway Trust Fund taxes).

# Chart 18.—TAX EXPENDITURES

[In billion of dollars]

| | Outlay equivalent | | Revenue loss | |
|---|---|---|---|---|
| | 1987 | 1988 | 1987 | 1988 |
| National defense | 4.3 | 4.3 | 4.9 | 5.0 |
| General science, space and technology | 2.1 | 1.5 | 2.2 | 0.9 |
| Energy | 0.7 | 0.5 | 0.8 | 0.6 |
| Natural resources and environment | 3.1 | 3.4 | 3.1 | 2.8 |
| Agriculture | 0.6 | 0.8 | 0.6 | 0.8 |
| Commerce and housing | 115.5 | 87.2 | 107.1 | 79.8 |
| Transportation | 0.1 | 0.2 | 0.2 | 0.2 |
| Community and regional development | 1.3 | 1.7 | 1.0 | 1.1 |
| Education, training, employment and social services | 22.1 | 19.4 | 24.1 | 18.4 |
| Health | 34.8 | 35.6 | 30.4 | 29.4 |
| Income security | 89.9 | 78.5 | 70.6 | 61.3 |
| Social Security | 17.9 | 16.6 | 17.9 | 16.8 |
| Veterans benefits and services | 2.1 | 1.9 | 2.1 | 1.9 |
| General government | 0.1 | ............ | 0.2 | ............ |
| General purpose fiscal assistance | 31.2 | 27.6 | 30.9 | 25.6 |
| Interest | 0.8 | 0.7 | 0.8 | 0.7 |

## Chart 18

## Tax Expenditures

The concept of tax expenditures was developed in order to compare the Federal government's outlays to the budgetary impact of various deductions, deferrals and credits in the tax structure. It was intended that, with this information, consideration of the budget might involve examination of both direct expenditures and tax expenditures as alternate means of providing incentives.

The Budget Act defines a tax expenditures as "revenue losses" attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of liability. In general, the concept is intended to identify provisions in the tax law which either encourage certain behavior or compensate for specific hardship. The term encompasses tax provisions of limited applicability which are exceptions to provisions of more general applicability considered necessary to make the tax system function.

The definition of "tax expenditure" is not precise. The imprecision in definition has resulted in substantial controversy. Chart 18 includes all items listed as tax expenditures by the Administration. A listing of a provision as a "tax expenditure" here is not intended to imply approval or disapproval, or any judgement about the effectiveness of any provision.

Chart 18 presents a summary of tax expenditures by budget functional category. The chart reflects both the Administration's estimate of the budget outlay equivalent for tax expenditures and the Administration's estimates of the revenue loss for tax expenditures. The estimates reflected in the chart are those based on post-1982 budget concepts rather than the normal baseline used prior to 1983. The estimates reflected in the chart, as well as estimates based on pre-1983 budget concepts, may be found in the Administration's Special Analysis of the fiscal year 1988 budget. The Administration tables are reproduced as Appendix C of this document.

The tax expenditure estimates should not be interpreted as the increase in Federal receipts (or reduction in the budget deficit) which would result if a provision were repealed. Repeal of some provisions could affect the aggregate level of income and economic growth; many tax expenditures are not independent of each other; the values of tax expenditures are largely interdependent; and the annual value of tax expenditures is very time-dependent.

## Chart 19.—DEBT LIMIT

[In billions of dollars]

| | |
|---|---|
| A. Fiscal 1988 debt limit: | |
| Current debt limit: | |
| Through May 15, 1987 | 2,300 |
| After May 15, 1987 | 2,111 |
| Administration estimate of debt subject to limit on September 30, 1987 | 2,353 |
| Plus: | |
| Federal funds deficit for fiscal year 1988 | 211 |
| Other transactions* | 8 |
| Equals: | |
| Debt subject to limit, September 30, 1988 | 2,573 |

*For example, increase or decrease in cash balances, "profit" on coinage, increase or decrease in certain debt holdings which are not subject to the limit.

| | CBO baseline | Administration budget |
|---|---|---|
| B. Projected debt subject to limit: | | |
| End of fiscal year: | | |
| 1988 | 2,608 | 2,573 |
| 1989 | 2,870 | 2,791 |
| 1990 | 3,114 | 2,987 |

## Chart 19

## Debt Limit

Since 1983, the practice of Congress has generally been to increase the statutory limit on the public debt on a permanent basis. At the end of the 99th Congress, however, a temporary increase in the Debt Limit of $189 billion was enacted. This temporary increase expires after May 15, 1987 at which time the limit on outstanding debt will drop from $2.3 trillion to $2.111 trillion. At that point, since the debt limit will be exceeded, Treasury will be unable to issue new debt even to roll over issues coming due. Consequently, action to raise the debt limit will be needed by that date.

The annual increase in the amount of debt subject to limit corresponds closely to the Federal funds deficit, that is the deficit in that part of the Federal government which is financed by general revenues rather than through trust fund operations. (Trust fund surpluses do not lower the total borrowing needs of the Government; they simply allow the Government to meet those needs by borrowing from the trust funds rather than from the general public.)

The Congressional Budget Office projects that a continuation of current policies will cause the debt subject to limit to rise to more than $3 trillion by the end of fiscal year 1990. The President's budget projects that, if the policy changes proposed in the budget are carried out, the level of debt will be slightly below $3 trillion at the end of fiscal 1990.

# APPENDIX A

## Committee on Finance Reports to the Budget Committee With Respect to Previous Fiscal Years

U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, D.C., March 15, 1975.*

Hon. EDMUND S. MUSKIE,
*Chairman, Budget Committee,*
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal budget which fall within its jurisdiction, as is required by section 301(c) of the Congressional Budget Act of 1974.

*Economic assumptions.*—In recognition of the fact that many of the components which go to make up the budget totals are highly susceptible to relatively slight changes in economic conditions, the Committee reviewed the economic assumptions underlying the estimates in the President's budget which are presented on page 41 of the President's budget. The alternative set of economic assumptions upon which the estimates in this letter are based are shown in Table 1.

While the Finance Committee has preferred to use the alternative economic assumptions in Table 1 to those used by the President in preparing his budget, we recognize that there are still other alternatives which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, some adjustment should be made in some of the revenue and outlay estimates.

## TABLE 1.—ECONOMIC ASSUMPTIONS: CALENDAR YEARS 1975–76

[Dollars in billions]

| | 1974 actual | 1975 | | 1976 | |
|---|---|---|---|---|---|
| | | President's budget | Committee on Finance | President's budget | Committee on Finance |
| Gross national product | $1,397 | $1,498 | $1,510 | $1,686 | $1,690 |
| CPI increase over 1974 (percent) | | 11.2 | 11.6 | 20.0 | 20.8 |
| Personal income | $1,150 | $1,232 | $1,262 | $1,365 | $1,402 |
| Wages, salaries | $751 | $792 | $803 | $884 | $893 |
| Corporate profits | $141 | $115 | $118 | $145 | $149 |
| Unemployment rate (percent) | 5.6 | 8.1 | 8.3 | 7.9 | 8.0 |

*Expenditure programs.*—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures approaching one-half of the entire Federal budget. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include medicare, medicaid, and maternal and child health, as well as national health insurance proposals. Other programs within the Committee's jurisdiction which involve expenditure of Federal funds include social services, revenue sharing, and payments under the Sugar Act. Interest on the public debt, which will account for some $33 billion in Federal outlays during the current fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in Table 2 should be allowed in the concurrent budget resolution for programs within the jurisdiction of this Committee.

The Finance Committee estimates involve outlays for fiscal year 1976 which are $10.3 billion higher than the outlays estimated in the President's budget excluding the outlays which are related to the President's energy proposals. Some of this difference relates to the alternative economic assumptions employed by the Committee, and (as shown in Table 2) $2.7 billion represents an allowance for new legislation not included in the President's budget. But the major element of difference reflects the Committee's opinion that much of the legislation assumed by the President's budget will not be enacted or will not be enacted in sufficient time to have the fiscal impact shown in the budget.

### TABLE 2.—BUDGET AUTHORITY AND OUTLAYS FOR PROGRAMS UNDER FINANCE COMMITTEE JURISDICTION

[Dollars in billions]

| Functional category | 1975 |  | 1976 |  | July-September 1976 |  |
|---|---|---|---|---|---|---|
|  | Budget authority | Outlays | Budget authority | Outlays | Budget authority | Outlays |
| 350 Agriculture (no legislation) | $0.1 | $0.1 |  | (1) |  |  |
| 500 Education, manpower, and social services (no legislation) | 2.7 | 2.8 | $3.1 | $3.1 | $1.0 | $1.0 |
| 550 Health | 24.0 | 21.4 | 26.6 | 24.4 | 6.4 | 6.8 |
| (New legislation) | (+.3) | (+.3) | (+1.9) | (+1.9) | (1) | (1) |
| 600 Income security | 85.3 | 86.8 | 91.7 | 101.7 | 23.8 | 27.0 |
| (New legislation) |  |  | (—.1) | (—.4) | (1) | (—.2) |
| 850 Revenue sharing and general purpose fiscal assistance (no legislation) | 6.2 | 6.2 | 6.4 | 6.3 | 1.7 | 1.7 |
| 900 Interest | 32.9 | 32.9 | 35.7 | 35.7 | 9.7 | 9.7 |
| (New legislation) |  |  | (+1.2) | (+1.2) | (+.4) | (+.4) |
| Total: |  |  |  |  |  |  |
| Present law | 151.2 | 150.2 | 163.5 | 171.3 | 42.5 | 46.1 |
| (New legislation) | (+.3) | (+.3) | (+3.0) | (+2.7) | (+.4) | (+.2) |

---

[1] Less than $50,000,000.

*Revenues.*—Virtually all revenues of the Federal Government fall within the jurisdiction of the Committee on Finance. The different types of revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. In estimating Federal revenues for the period covered by this letter, the Committee estimated that the tax reduction legislation now under consideration would result in revenue changes of at least the magnitude shown in Table 3. These estimates reflect the decisions of the Committee with respect to the Tax Reduction Act of 1975 (H.R. 2166) as ordered reported on March 14, 1975. The Committee does not feel, however, that any reasonable estimate is possible at this time of the likely effects of further revenue legislation to be considered later this year. Accordingly, the Committee's estimates do not reflect either increases or decreases under subsequent revenue legislation.

TABLE 3.—FINANCE COMMITTEE REVENUE ESTIMATES

[Dollars in billions]

| | 1975 | 1976 | July-September 1976 |
|---|---|---|---|
| Present law | $283.7 | $302.4 | $79.3 |
| Allowance for legislation | −12.2 | −18.2 | −5.0 |
| Present law and legislation | 271.5 | 284.2 | 74.3 |

*Public debt limit.*—The permanent debt limit under existing law is $400 billion. Under Public Law 94–3, there is in effect an additional temporary debt limit of $131 billion which expires June 30, 1975. In estimating the amount by which this combined limit of $531 billion will have to be increased to cover the additional budget deficits for fiscal year 1976 and the July-September 1976 quarter, the Committee has taken into account its expenditure estimates for programs under Finance Committee jurisdiction and its revenue estimates discussed above. The impact of Public Law 94–4 on food stamp program outlays is also taken into account in the Committee's debt limit estimates. In other respects, the Committee accepts the President's budget as the basis for its computation of debt limit requirements. The Budget Committee may, therefore, find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the President's budget for programs not within the jurisdiction of the Committee on Finance.

## TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES

[Dollars in billions]

| | Present law | Allowance for legislation | Present law and legislation |
|---|---|---|---|
| Debt subject to limit, June 30, 1975 | $531 | .......... | $531 |
| Plus deficit for 1976 | 49 | +20 | 69 |
| Off-budget agency spending financed by Treasury | 10 | .......... | 10 |
| Debt subject to limit, June 30, 1976 | 590 | .......... | 610 |
| Adjustment for mid-June peak | (598) | .......... | (618) |
| Plus deficit for July–September 1976 | 9 | +7 | 16 |
| Off-budget agency spending financed by Treasury | 3 | .......... | 3 |
| Debt subject to limit, Sept. 30, 1976 | 602 | .......... | 629 |

*Tax expenditures.*—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provides a special credit, a preferential rate of tax, or a deferral of tax liability." In the Committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the Committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated. In doing so, however, the Committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee accepts at face value the tax expenditure listing included in Special Analysis F of the President's Budget. However, the Committee notes that certain additional items are considered by some persons to be tax expenditures and should therefore be added to the list shown in the President's Budget. These additional items are shown in Table 5 below.

## TABLE 5.—ADDITIONAL TAX EXPENDITURE ITEMS

[Dollars in millions]

| | Fiscal year— | | July–September 1976 |
|---|---|---|---|
| | 1975 | 1976 | |
| Asset depreciation range | $1,410 | $1,590 | $400 |
| Income deferral of foreign corporations | 620 | 620 | 155 |
| Maximum tax on earned income | 350 | 385 | 105 |
| Taxation of capital gains at death | 2,210 | 2,280 | 600 |

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

With every good wish, I am

Sincerely,

RUSSELL B. LONG, *Chairman.*

U.S. Senate,
Committee on Finance,
*Washington, D.C., March 4, 1976.*

Hon. Edmund S. Muskie,
*Chairman, Budget Committee,*
*U.S. Senate, Washington, D.C.*

Dear Mr. Chairman: The Committee on Finance met in executive session throughout the week of February 23d to give thorough consideration to those aspects of the Federal budget which fall within the Committee's jurisdiction. This letter transmits the views and estimates of the Committee on Finance as is required by section 301(c) of the Congressional Budget Act of 1974.

*Economic assumptions.*—Many of the components which go to make up the budget totals are highly susceptible to relatively slight changes in economic conditions. The economic assumptions underlying the President's budget are presented on page 25 of the President's budget. For purposes of the first concurrent resolution on the budget, the Finance Committee has accepted these assumptions.

While the President's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are other alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in some of the revenue and outlay estimates under present law.

*Expenditure programs.*—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures approaching one-half of the entire Federal budget. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include Medicare, Medicaid, and maternal and child health, as well as national health insurance proposals. Other programs within the Committee's jurisdiction which involve expenditure of Federal funds include social services, revenue sharing, and payments under the Sugar Act. Interest on the public debt, which on a net basis will account for some $37 billion in Federal outlays during the current fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in Table 1 should be allowed in the concurrent budget resolution for these programs.

The Finance Committee estimates involve outlays for fiscal year 1977 which are $6.0 billion higher than the outlays estimated in the President's budget as printed. The major element of difference reflects the Committee's judgment that most of the legislation proposed by the President to cut back existing benefits will not be enacted as assumed in the budget. Comments on specific functional categories are shown below.

TABLE 1.—BUDGET AUTHORITY AND OUTLAYS FOR PROGRAMS UNDER FINANCE COMMITTEE JURISDICTION

[In billions of dollars]

| Functional category | 1976 | | July-September 1976 | | 1977 | |
|---|---|---|---|---|---|---|
| | Budget authority | Outlays | Budget authority | Outlays | Budget authority | Outlays |
| 350 Agriculture | 0 | (1) | 0 | 0 | 0 | 0 |
| (New legislation) | | | | | (+$.1) | (+$.1) |
| 500 Education, manpower, and social services | $3.7 | $3.2 | $.8 | $.8 | 3.3 | 3.3 |
| (New legislation) | (+.1) | (+.1) | (+.1) | (+.1) | (+.4) | (+.4) |
| 550 Health | 27.1 | 26.2 | 7.3 | 7.3 | 32.6 | 31.5 |
| (New legislation) | | | | | (+.4) | (+.4) |
| 600 Income security | 94.8 | 102.8 | 24.1 | 26.5 | 108.2 | 112.6 |
| (New legislation) | (1) | (1) | (1) | (1) | (−.1) | (−.2) |
| 850 Revenue sharing | 6.4 | 6.3 | 1.7 | 1.7 | 1.7 | 3.4 |
| (New legislation) | | | | | (+6.9) | (+5.1) |
| 900 Interest | 37.7 | 37.7 | 10.4 | 10.4 | 44.9 | 44.9 |
| Interest paid to trust funds | −8.0 | −8.0 | −2.1 | −2.1 | −8.2 | −8.2 |

[1] Less than $50,000,000.

*Agriculture.*—The only program within the Finance Committee's jurisdiction in this functional category is the Sugar Act. That Act expired at the end of December 1974 and no payments to sugar growers were made for crop years after 1974. The amount shown for new legislation will permit renewal of the Sugar Act. In the past, the excise tax on sugar (which has also expired) has produced revenues which exceed the cost of the payments to sugar growers. The Finance Committee revenue estimates also allow for renewal of the sugar excise taxes, so that taken together, renewal of the payments and the excise tax will reduce the budget deficit slightly.

*Education, Manpower and Social Services.*—The $0.4 billion shown for new legislation makes allowance for the child care staffing legislation currently pending in conference with the House of Representatives. Legislation to modify the Work Incentive Program has already been reported by the Committee on Finance and is pending on the

Senate calendar. It should be noted that the amendments to the Work Incentive Program, which result in increased expenditures in the manpower training category, will be substantially more than offset by savings in the income security category.

*Health.*—The estimate for new legislation for health assumes that the Congress will not act favorably on the President's proposals to cut back on Medicare benefits. However, the additional $0.5 billion for this category does include allowance for the start-up costs associated with a major expansion of the Federal health role even though the new legislation would not become fully effective until fiscal year 1978.

*Income security.*—The Committee estimate for new legislation under the income security category represents a net figure of both savings and additional benefits in the programs of Aid to Families with Dependent Children and Supplemental Security Income for the aged, blind, and disabled. The Finance Committee estimates do not assume the enactment of the President's proposals to cut back social security cash benefits by $0.8 billion. In addition, since action on the unemployment insurance bill has been delayed in the House, it is assumed that there will be no increased benefits under new legislation before fiscal year 1978.

*Revenue sharing and general purpose fiscal assistance.*—The revenue sharing program expires at the end of December 1976. The amount included in the Finance Committee estimates provides sufficient funds to extend the program, to provide for annual automatic increases to reflect general inflationary trends, and to permit legislative action on a counter-cyclical increment to the revenue sharing funds.

*Interest on the public debt.*—The Committee estimates that gross interest on the public debt for fiscal year 1977 will be $44.9 billion using as a base the President's budget as modified by the Committee's recommendations for outlays in other categories and for revenues. The gross interest on the public debt is offset by $8.2 billion in estimated interest paid to Federal trust funds.

TABLE 2.—FINANCE COMMITTEE REVENUE ESTIMATES

[In billions]

| | 1976 | July–September 1976 | 1977 |
|---|---|---|---|
| Present law | $297.5 | $87.4 | $374.6 |
| Allowance for legislation (net) | | −5.0 | −19.6 |
| Present law and legislation | 297.5 | 82.4 | 355.1 |

*Revenues.*—Virtually all revenues of the Federal Government fall within the jurisdiction of the Committee on Finance. The different types of revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

Tax reductions first enacted in the Tax Reduction Act of 1975 and extended in the Revenue Adjustment Act of 1975 expire at the end of June 1976 (at the end of December 1976 in the case of the higher investment tax credit). It is estimated that continuation of the expiring provisions at the present levels will reduce revenues by $17.3 billion in fiscal year 1977. The Committee net revenue loss estimate of $19.6 billion under new legislation in fiscal year 1977, together with certain expected revenue increases, would permit a net revenue loss of about $3 billion beyond the revenue loss associated with straight extension of expiring provisions.

The President's budget as printed assumed revenues of $351.3 billion and outlays of $394.2 billion, with a deficit of $43.0 billion. Since the President's budget was submitted, the President has increased the cost of his health proposal by $0.9 billion, and it is now clear that the effective date of the unemployment compensation tax and benefit increase proposals of the President will have to be delayed for one year because of the delay in House consideration of the unemployment bill. Adjusting for these two modifications, the President's budget assumes revenues of $349.7 billion and outlays of $394.8 billion, with a deficit of $45.2 billion. In order to preserve a deficit no higher than the $45.2 billion in the adjusted President's budget, the revenue estimate must be $5.4 billion higher than the adjusted President's budget just as the expenditure estimates as proposed by the Committee on Finance are $5.4 billion higher than the adjusted President's budget. This results in the net amount available for new revenue legislation being $19.6 billion rather than the $25.0 billion proposed by the President. (These figures are shown in Table 3 below. This table includes a correction to the data shown in Table 12 of the President's budget increasing proposed revenue reductions by $0.6 billion with an offsetting increase of the same amount in present law revenues.)

The Finance Committee revenue estimates for new legislation are thus consistent with the policy incorporated in section 1A of the Revenue Adjustment Act of 1975.

## TABLE 3.—COMPARISON OF PRESIDENT'S BUDGET FOR FISCAL YEAR 1977 AND FINANCE COMMITTEE ESTIMATES

[In billions]

| | Revenues | Outlays | Deficit |
|---|---|---|---|
| President's budget as printed | $351.3 | $394.2 | –$43.0 |
| Adjustment for higher cost of health proposal, delay in enacting unemployment proposals | –1.6 | +.6 | –2.2 |
| Adjusted President's budget | 349.7 | 394.8 | –45.2 |
| Finance Committee estimate | 355.1 | 400.2 | –45.2 |

The Committee budget estimates assume no action on the President's proposal to increase social security taxes by 0.3 percent each on employers and employees. However, should the Committee subsequently decide to enact some or all of this proposal, the income tax reductions could be increased by an equivalent amount to fit within the overall revenue target. As mentioned above, the revenue estimate makes allowance for renewal of the sugar excise tax which more than offsets payments to growers under the Sugar Act (shown under the functional category for agriculture).

*Public Debt Limit.*—The permanent debt limit under existing law is $400 billion. H.R. 11893, which has passed the House of Representatives, would provide an additional temporary debt limit of $227 billion which will expire June 30, 1976. In estimating the amount by which this combined limit of $627 billion will have to be increased to cover the additional Federal fund budget deficits for the July to September 1976 quarter and fiscal year 1977, the Finance Committee has taken into account its expenditure estimates as discussed above. In other respects, the Committee accepts the President's budget as the basis for its computation of debt limit requirements. The Budget Committee may, therefore, find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the President's budget for programs not within the jurisdiction of the Committee on Finance.

## TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES

[In billions]

| | |
|---|---|
| Debt subject to limit, June 30, 1976 (under H.R. 11893) | $624 |
| Plus: | |
| Deficit for July-September 1976 (Federal funds) | 15 |
| Offbudget agency spending financed by Treasury | 4 |
| Debt subject to limit, Sept. 30, 1976 | 643 |
| Plus: | |
| Deficit for fiscal year 1977 (Federal funds) | 50 |
| Offbudget agency spending financed by Treasury | 12 |
| Debt subject to limit, Sept. 30, 1977 | 705 |

*Tax expenditures.*—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the Committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the Committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated. In doing so, however, the Committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee accepts at face value the tax expenditure listing included in Special Analysis F of the President's budget. However, the Committee notes that certain additional items are considered by some persons to be tax expenditures and should therefore be added to the list shown in the President's budget. These additional items are shown in Table 5 below.

## TABLE 5.—ADDITIONAL TAX EXPENDITURE ITEMS

[In millions]

| | Fiscal year 1976 | Transition quarter | Fiscal year 1977 |
|---|---|---|---|
| Asset depreciation range | $1,590 | $450 | $1,805 |
| Deferred income of controlled foreign corporations | 525 | 100 | 365 |
| Taxation of capital gains at death | 6,720 | 1,820 | 7,280 |
| Cooperatives—Deduction for noncash dividends | 410 | 100 | 455 |

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

With every good wish, I am

Sincerely,

Russell B. Long,
*Chairman.*

U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, D.C., March 4, 1977.*

HON. EDMUND S. MUSKIE,
*Chairman, Budget Committee, U.S. Senate,*
*Washington, D.C.*

DEAR MR. CHAIRMAN: The Committee on Finance met in executive session during the week of February 28th to give thorough consideration to those aspects of the Federal budget for fiscal year 1978 which fall within the committee's jurisdiction. This letter transmits the views and estimates of the Committee on Finance as is required by section 301(c) of the Congressional Budget Act of 1974.

*Economic assumptions.*—Many of the components which go to make up the budget totals are highly susceptible to relatively slight changes in economic conditions. The economic assumptions underlying the budget are presented on page 10 of the February 22, 1978 budget revisions document (the Carter budget). For purposes of the first concurrent resolution on the budget, the Finance Committee has accepted these assumptions.

While the President's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are other alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in some of the revenue and outlay estimates under present law.

*Expenditure programs.*—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures approaching one-half of the entire Federal budget. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include medicare, medicaid, and maternal and child health, as well as national health insurance proposals. Other programs within the committee's jurisdiction which involve expenditure of Federal funds include social services, revenue sharing, and payments under the Sugar Act. Interest on the public debt, which on a gross basis will account for some $47 billion in Federal outlays during the coming fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in table 1 should be allowed in the concurrent budget resolution for these programs. The Finance Committee estimates involve outlays for fiscal year 1978 which are $1.4 billion higher than the outlays estimated in the Carter budget as printed.

### TABLE 1.—FISCAL YEAR 1978 BUDGET AUTHORITY AND OUTLAYS UNDER FINANCE COMMITTEE JURISDICTION

[In billions of dollars]

| Functional category | Budget authority | Outlays |
|---|---|---|
| 350 Agriculture | 0 | 0 |
| New legislation | (+.1) | (+.1) |
| 500 Education, manpower, and social services | 3.5 | 3.5 |
| New legislation | (+1.0) | (+1.0) |
| 550 Health | 40.8 | 38.2 |
| New legislation [1] | ([2]) | (−.6) |
| 600 Income security | 117.0 | 119.0 |
| New legislation [1] | (−.1) | (−.5) |
| 850 Revenue sharing | 7.0 | 7.0 |
| New legislation | (+1.6) | (+1.6) |
| 900 Interest [3] | 47.1 | 47.1 |
| New legislation | (+.1) | (+.1) |

[1] Includes the allowances for savings proposed in the Carter budget related to (1) reduction of low-priority social security cash benefit payments, and (2) hospital reimbursement cost controls. Though it may be optimistic to assume achievement of these savings, the committee recommends acceptance of the Carter estimates as a goal at this time.

[2] Less than $50,000,000.

[3] After deducting offsets, net interest is $41,900,000,000.

*Agriculture.*—The only program within the Finance Committee's jurisdiction in this functional category is the Sugar Act. That act expired at the end of December 1974 and no payments to sugar growers were made for crop years after 1974. The amount shown for new legislation will permit renewal of the Sugar Act if such action becomes necessary. In the past, the excise tax on sugar (which has also expired) has produced revenues which exceed the cost of the payments to sugar growers. The Finance Committee revenue estimates also allow for renewal of the sugar excise taxes, so that taken together, renewal of the payments and the excise tax would reduce the budget deficit slightly.

*Education, Manpower, and Social Services.*—A variety of Finance Committee programs fall within the social services budget function. In fiscal year 1977 an additional $0.2 billion was provided for child care under the social services program; President Carter has recommended an extension of this additional child care funding. The committee believes that, in considering legislation dealing with the title XX program and other services programs, the Congress may decide to provide somewhat higher levels of additional funding. In addition, the committee may wish to propose changes in and increased appropriations for the work incentive (WIN) program. The committee notes that increased funding for the WIN program has a potential for reducing overall Federal spending by allowing welfare recipients to attain self-sufficiency. Overall, the committee recommends that the congressional budget resolution for fiscal 1978 allow for $1.0 billion of new legislation in the area of social service programs within its jurisdiction.

*Health.*—The Committee on Finance has jurisdiction over the medicare, medicaid, and maternal and child health programs. The budget revisions submitted by President Carter assume that substantial cost savings in these programs can be achieved through new legislative changes which have not yet been proposed in any detail. While the Committee on Finance cannot realistically evaluate the savings to be achieved until it has had an opportunity to examine those proposals in detail, it recommends for budget purposes that the President's commitment in this area be accepted. Moreover, the committee believes that, whether or not such new legislation can be developed, there may be substantial possibilities for cost reductions through vigorous administration of existing statutes. The President's budget also recommends certain changes in health programs which would result in increased costs. While the committee reserves judgement on the merits of the particular proposals, it does believe that Congress may wish to make some improvements in these programs which will offset some of the savings achieved through cost controls. Accordingly the committee recommends that the budget resolution assume legislative changes involving a net reduction in health function spending of $0.6 billion.

*Income security.*—The committee estimate for new legislation under the income security category represents a net figure of both savings and additional benefits in the various cash benefit programs under the jurisdiction of the Committee on Finance. (These programs are old-age, survivors, and disability insurance, supplemental security income for the aged, blind, and disabled, aid to families with dependent children, and unemployment compensation.) As with the health function, the committee notes that the President's budget assumes substantial cost reductions in the social security programs. While the committee believes that those budget assumptions may present an optimistic estimate of the savings that can be achieved, it recommends acceptance of those estimates as a goal at this time. The committee will closely consider the President's recommendations, as well as alternative means of reducing costs. The committee may also wish to recommend some benefit improvements, and the estimate for this function incorporates an allowance for that purpose. The committee estimates also reflect an expectation that ways can be found to reduce the cost of any legislation extending the emergency unemployment compensation program below the levels proposed in the President's budget. In summary, the committee recommendations in the income security area under proposed legislation represent a net reduction of $0.1 billion below the Carter budget.

In this function, the estimates of the committee also include an assumption that the present law costs of the social security cash benefits programs will be higher than those shown in the President's budget. The President's budget assumed a 4.9 percent increase in social security benefits in June under the automatic cost-of-living provisions. It now appears certain that the increase will be higher than that percentage; the $0.5 billion increase recommended by the committee above the Carter budget reflects a more realistic estimate of benefit costs under existing law.

*Revenue sharing and general purpose fiscal assistance.*—This function of the budget includes general revenue sharing, countercyclical revenue sharing, and certain other items such as payments to Puerto Rico of amounts equal to certain tax collections. The committee recommends that the budget resolution allow for increases in this category in fiscal year 1978 of $1.6 billion.

*Interest.*—The interest function in the budget includes interest on the public debt, interest payments on certain tax refunds, and certain offsetting interest receipts. The committee estimates that present law, as modified by legislative proposals of President Carter not within this committee's jurisdiction, will involve gross interest on the public debt of $46.8 billion. The committee also estimates that the increased deficit resulting from the revenue and outlay recommendations in this letter would increase that interest by a further $0.1 billion.

## TABLE 2.—FISCAL YEAR 1978 FINANCE COMMITTEE REVENUE ESTIMATES

(In billions of dollars)

| | |
|---|---|
| Present law | 416.2 |
| Allowance for legislation (net) | −17.7 |
| Present law and legislation | 398.5 |

*Revenues.*—Virtually all revenues of the Federal Government fall within the jurisdiction of the Committee on Finance. The different types of revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

President Carter's budget for fiscal 1978 proposes revenue reductions of $15.8 billion. Legislation reported by the House Committee on Ways and Means would increase this proposal to $16.9 billion. The Committee on Finance believes that the Senate may wish to provide somewhat larger overall tax reductions. The committee recommends that the budget resolution allow for a net reduction in revenues in fiscal year 1978 of $17.7 billion. The Finance Committee may wish to propose legislation providing reductions in excess of this amount, but, if it does so, it will undertake to propose at the same time other offsetting changes.

The revenue estimate of the Finance Committee includes an assumption that, if it becomes necessary to reenact the Sugar Act, the committee will propose a renewal of the sugar excise tax which would offset any payments under the act to growers. The estimate also includes an allowance of $0.1 billion to cover minor tax and tariff legislation. The committee notes that the practice of setting a budget resolution revenue total at exactly the level of expected revenues results in an unfortunate procedural barrier to the consideration of minor tax and tariff bills which have only negligible revenue implications. While such bills have essentially no budgetary impact, they are technically inconsistent with the budget resolution (and after the second budget resolution may be subject to a point of order). To deal with this situation, the Committee on Finance strongly recommends that the revenue total in the budget resolution be set at a level $0.1 billion below the level of revenues otherwise anticipated.

The Committee on Finance urges that the existing practice under the Congressional Budget Act of treating refundable tax credits as revenue reductions be continued. The Congress has repeatedly dealt with such credits as an integral part of tax provisions. Treating them as outlays in the budget resolution would be inconsistent with the manner in which Congress actually deals with them. It would not in any way change their budgetary impact or make that impact more understandable. And such a change would unnecessarily create procedural barriers to the consideration of revenue measures, including some revenues measures not directly affecting refundable credit provisions.

In recommending specific amounts for revenue reductions and outlays, the committee recognizes that the Senate will be considering alternative proposals to stimulate the economy—and that these proposals, while keeping within the same overall budgetary impact, may well involve larger net revenue reductions and smaller outlays than have been included within the various budgetary categories. Similarly, alternative proposals may involve the same budgetary impact in the 2-year period 1977–78, but reduce the impact in 1977 while increasing it in 1978.

*Budget deficit.*—Table 3 shows the overall budgetary impact of the recommendations of the Committee on Finance concerning the fiscal year 1978 congressional budget resolution.

TABLE 3.—BUDGETARY IMPACT OF FINANCE COMMITTEE RECOMMENDATIONS

[In billions of dollars]

| | Revenues | Outlays | Deficit |
|---|---|---|---|
| Present law [1] | 416.2 | 458.3 | −42.0 |
| Carter budget [2] | 400.4 | 458.5 | −58.1 |
| Finance Committee recommendation | 398.5 | 459.8 | −61.3 |

[1] Present law outlays as shown in this table include the impact of legislative proposals in the Carter budget which are not within the jurisdiction of the Finance Committee.

[2] Carter budget totals are shown after adjustment to show the refundable portion of the earned income credit as a revenue reduction rather than as an outlay. Also, the present law amount of that item has been adjusted to reflect a revised estimate.

*Public Debt Limit.*—The permanent debt limit under existing law is $400 billion. In addition, there is a temporary debt limit in effect which brings the overall limit to $682 billion. This limit will increase to $700 billion after March 31. It is expected that a further increase will be necessary prior to the end of fiscal year 1977. As of September 30, 1977, the debt subject to limit is estimated under the Carter budget to reach $718 billion. The projected deficit for fiscal 1978 would further increase the debt subject to limit to a level of $798 billion under the recommendations of the Committee on Finance contained in this letter. Except for those recommendations, this estimate is computed on the basis of the Carter budget. The Budget Committee may, therefore, find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the Carter budget for programs not within the jurisdiction of the Committee on Finance.

### TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES

(In billions of dollars)

| | |
|---|---|
| Debt subject to limit as of September 30, 1977 | 718 |
| Plus: | |
| Federal funds deficit for fiscal year 1978 | 71 |
| Off-budget agency spending financed by Treasury and other financing | 9 |
| Equals: Debt subject to limit as of September 30, 1978 | 798 |

*Tax expenditures.*—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the committee feels that the only way in which it can comply with the Budget Acts requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated. In doing so, however, the committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee accepts at face value the tax expenditure listing included in Special Analysis F of the President's budget. However, the committee notes that certain additional items arc considered by some persons to be tax expenditures and should therefore be added to the list shown in the President's budget. These additional items are shown in table 5 below:

## TABLE 5.—ADDITIONAL TAX EXPENDITURE ITEMS

[In millions of dollars]

| | Fiscal year 1977 | Fiscal year 1978 |
|---|---|---|
| Earned income credit[1] | 1,145 | 1,141 |
| Deferred income of controlled foreign corporations | 410 | 410 |
| Taxation of capital gains at death | 7,280 | 8,120 |
| Asset depreciation range | 1,805 | 2,020 |

[1] The amounts shown here represent the refundable portion of the earned income credit. The nonrefundable portion is included in the administration's analysis.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

With every good wish, I am

Sincerely,

RUSSELL B. LONG,
*Chairman.*

## LETTER OF TRANSMITTAL

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UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D.C., March 10, 1978.*

Hon. EDMUND S. MUSKIE,
*Chairman, Committee on the Budget,*
*U.S. Senate,*
*Washington, D.C.*

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal Budget for fiscal year 1979 which fall within the Committee's jurisdiction as is required by section 301(c) of the Congressional Budget Act of 1974.

*Economic assumptions.*—Many of the components which go to make up the budget totals are highly susceptible to relatively slight changes in economic conditions. The economic assumptions underlying the budget are presented on page 31 of the President's budget. For purposes of the first concurrent resolution on the budget, the Finance Committee accepted these assumptions.

While the President's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are other alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in some of the revenue and outlay estimates under present law.

*Estimating budgetary impact.*—In the course of developing its recommendations with respect to the fiscal year 1979 budget, the Committee became aware of certain estimating problems which tend to distort the budgetary picture. These problems relate to the offsetting impact which certain budget items may have on other aspects of the budget. One such problem is that an increase in one budgetary function may result in offsetting reductions which occur under other budgetary functions. A budgetary allowance for a given proposal thus may stand out as a significant increase while any offsetting impact may be hidden in the overall estimates for other categories. A related problem is that the budgetary increases resulting from new legislation tend to be more easily estimated than the offsetting savings.

The work incentive (WIN) program under title IV–C of the Social Security Act is a case in point. This program is directly targeted on the reduction of welfare dependency. It includes supportive services, placement activities, training, and subsidized employment. Through some or all of these activities, the program serves to move an individual from welfare to employment. This is a program which, in the Committee's view, clearly pays for itself. However, allowing for increased funding requires a budgetary increase in the social services category, while offsetting savings occur in different categories (income security to the extent that AFDC and food stamp costs are reduced; health to the extent of medicaid savings). In addition, the program results in a savings of State welfare expenditures which are simply not reflected in the budgetary totals—although they are important in evaluating the budgetary impact of the program from the taxpayer's standpoint.

In addition to the fact that the budgetary categories tend to obscure savings, the extent of the savings has been disputed. The difficulty of determining the relationship between participation in the program and subsequent employment, and the lack of certain data concerning the duration of employment, result in significantly differing views of the level of offsetting savings which result from increased WIN funding. However, the fact that savings may be more difficult to estimate than costs does not mean that savings are less real than costs. Nor is it a valid approach to the budgetary process to ignore savings because of difficulties in estimating them.

The Committee is convinced that there are substantial numbers of welfare recipients who are employable and that the WIN program can, if adequately funded, provide them with the necessary assistance and opportunities for employment. Moreover, the Committee believes that the WIN program must be viewed as an integral part of the actions Congress has taken in the past few years to improve welfare programs and to reduce avoidable dependency. (Another important element of this type is the child support program enacted in 1974.) The results are impressive. The rapid escalation of welfare dependency which was characteristic of the program at the end of the last decade has been stopped. Even during the recent recession, when increased dependency would have been expected, the AFDC rolls have, in fact, declined. In the five years prior to the 1971 amendments which restructured the WIN program, the AFDC caseload was increasing at an annual rate of 18 percent as compared with an average annual increase of only 1 percent over the past 5 years—and an actual decline of more than 2½ percent over the most recent 12-month period for which statistics are available.

The Committee believes that these more favorable trends in caseload account for substantial savings in expenditures far exceeding what has been spent on WIN, child support enforcement, and other activities which have contributed to those savings. A valid budgetary judgment must attempt to balance proposed increases in funding for such programs against the savings which may be anticipated to result from them. For this reason, the Committee, in developing its budget recommendations, has incorporated significant offsetting savings into the estimates underlying this letter in those instances where the Committee anticipates increased funding of programs which would produce such savings.

*Expenditure programs.*—The Committee on Finance shares with other committees jurisdiction over a number of program areas involving expenditures. These areas include income maintenance, health, social services, and other matters.

Interest on the public debt, which on a gross basis will account for some $56 billion in Federal outlays during the coming fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in Table 1 should be allowed in the concurrent budget resolution for these programs. The Finance Committee estimates involve outlays for fiscal year 1979 which are $1.4 billion higher than the outlays estimated in the President's budget.

TABLE 1.—FINANCE COMMITTEE RECOMMENDATIONS CONCERNING BUDGET AUTHORITY AND OUTLAYS UNDER COMMITTEE JURISDICTION: FISCAL 1979

[In billions of dollars]

| Functional category | Budget authority | Outlays |
|---|---|---|
| 350 Agriculture | 0 | 0 |
| New legislation | +0.3 | +0.3 |
| 450 Community and regional development | .1 | .1 |
| 500 Education, training, employment, and social services | 4.1 | 4.1 |
| New legislation | +1.3 | +1.3 |
| 550 Health | 44.1 | 42.5 |
| New legislation | (*) | (*) |
| 600 Income security | 131.2 | 129.3 |
| New legislation | −.1 | −.1 |
| 850 General purpose fiscal assistance | 7.0 | 7.0 |
| New legislation | +1.1 | +1.1 |
| 900 Interest | [1] 55.7 | [1] 55.7 |
| | +.4 | +.4 |

[1] Certain offsetting interest receipts reduce the budgetary impact of this total to $49,000,000,000.

*Net change less than $50,000,000.

*Agriculture.*—The only program within the Finance Committee's jurisdiction in this functional category is the Sugar Act. That Act expired at the end of December 1974 and no payments to sugar growers were made for crop years after 1974. However, crop support payments have been authorized through the end of this calendar year under the Food and Agriculture Act of 1977. The amount shown for new legislation will permit enactment of a support payment program along the lines of the former Sugar Act. (The International Sugar Agreement which is now before the Senate for its advice and consent would require new, implementing legislation.)

In the past, the excise tax on sugar (which has also expired) has produced revenues which exceed the cost of the payments to sugar growers. (The current support payments are funded through higher tariffs on imported sugar.) The Finance Committee revenue estimates also allow for renewal of the sugar tariff and/or excise tax, so that taken together, renewal of the support payments and the tariff or excise tax would leave the budget deficit unchanged.

*Education, training, employment, and social services.*—In this category, there are several programs under the jurisdiction of the Committee on Finance including the general social services program under title XX of the Social Security Act, the child welfare services program, and the work incentive program (WIN) for employable recipients of aid to families with dependent children. In the case of the WIN program there is, in addition to the general authorization of permanent law, a special authorization for fiscal years 1978 and 1979 under Public Law 95–30. This law was enacted last year and the Committee has approved legislation to provide an additional increase in that authorization. The Committee has also reported legislation which would increase the funding required for the title XX and child welfare services programs. In developing its estimates for this function the Committee has taken into account the requirements for providing adequate funding for these three programs under present law and under the legislation already approved by the Committee. We have also included an allowance for further increases under additional legislation.

*Health.*—The Committee on Finance has jurisdiction over the Medicare, Medicaid, and maternal and child health programs. The Committee recommends that the Congressional budget for fiscal year 1979 allow approximately the same level of funding for this function (insofar as it concerns Finance Committee programs) as under present law. In making this recommendation, the Committee anticipates that it will be proposing legislation affecting health category expenditures. However, the Committee believes that sufficient savings can be achieved to offset the costs of any new spending that the Committee may propose. At the same time, however, the Committee notes that the Administration budget proposed a savings of $0.7 billion in medicare and medicaid through its hospital cost containment proposal. The Committee believes that it would be unrealistic to base a Congressional budget estimate on the expectation that this proposal will be enacted. The Committee intends to act this year on legislation dealing with the costs of the Medicare and Medicaid programs and is convinced that it can develop legislation which will, in the long run, be as effective, if not more effective in restraining hospital costs in those programs than the Administration proposal. In developing this proposal, the Committee will to the extent reasonably possible, attempt to affect short-range costs also. However, the Committee strongly recommends that the budget resolution not anticipate fiscal year 1979 savings from hospital cost containment.

*Income security.*—In the income security function of the budget, the Committee on Finance has jurisdiction over the basic national social insurance and public assistance programs. The major programs involved are old-age, survivors, and disability insurance, supplemental security income for the aged, blind, and disabled, aid to families with dependent children, and unemployment compensation. The Committee recommendation for this function indicates allowance for legislative changes which would reduce outlays by $0.1 billion. In making this recommendation, the Committee points out that legislation already reported by the Committee would involve certain new spending in this category offset by provisions which would reduce income security costs. In addition, as pointed out earlier in this letter, the Committee believes that fuller funding of the work incentive (WIN) program under existing law and under proposed legislation will be effective in reducing AFDC expenditures.

The President's budget anticipates legislation to reduce the costs of the old-age, survivors, and disability insurance program by some $0.6 billion. The Committee notes that action on major social security legislation has already been completed during this Congress. That legislation included the elimination of certain low-priority benefit features which would otherwise have cost $1.2 billion in calendar year 1979. The Committee intends to continue to review the social security program and to recommend appropriate legislative changes to eliminate any costs which result from unnecessary and undesirable provisions. It would not, however, be realistic to assume that such legislation will be enacted to provide additional reductions in this program for fiscal year 1979. The Committee recommends that the savings shown in the President's budget not be incorporated into the development of the Congressional budget resolution.

*General purpose fiscal assistance.*—This function of the budget includes general revenue sharing, countercyclical revenue sharing, and other items such as payments to Puerto Rico of amounts equal to certain tax collections. The countercyclical revenue sharing program is scheduled to expire at the end of fiscal year 1978, but the President's budget has recommended its extension through September 30, 1979. The President's tax recommendations include features which would involve some expenditures in this category in the form of subsidies related to municipal bonds issued on a taxable basis. The Committee recommendations that $1.1 billion be allowed for possible new legislation in this budget function would be sufficient to accommodate the outlays resulting from such legislation if it is determined to be appropriate when that legislation is considered substantively. The Committee notes that the President's proposed bond subsidy program apparently would take a form requiring a multi-year appropriation for which several billion dollars in additional budget authority would be necessary. We have not yet had the opportunity to decide whether such a program will be a part of our tax recommendation nor, if agreed to, the exact form of such a program. We therefore feel that it would be appropriate at this time to limit the budget authority allowed for such a contingency to what would be necessary to cover the first year's outlays.

*Interest.*—The interest function in the budget includes interest on the public debt, interest payments on certain tax refunds, and certain offsetting interest receipts. The Committee estimates that present law, as modified by legislative proposals of President Carter not within this Committee's jurisdiction, will involve gross interest on the public debt of $55.4 billion. The Committee also estimates that the increased deficit resulting from the revenue and outlay recommendations in this letter would increase that interest by a further $0.4 billion.

TABLE 2.—FISCAL YEAR 1979 FINANCE COMMITTEE REVENUE ESTIMATES

[In billions of dollars]

| | |
|---|---|
| Present law | [1]472.2 |
| Allowance for legislation (net) | −44.0 |
| Present law and legislation | 428.2 |

[1] The committee, for purposes of this report, has accepted the President's budget estimates of present law revenues. It is noted, however, that those estimates do not include the $200,000,000 in fiscal year 1979 revenues attributable to the recently enacted tax on coal under the Black Lung Benefits Revenue Act of 1977, and it is also understood that the budget does not reflect the increased outlays resulting from the companion legislation modifying the Black Lung program

*Revenues.*—The different types of Federal revenues include individual and corporate incomes taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

The President's budget for fiscal year 1979 proposes revenue reductions totaling $32.6 billion as compared with present law. The Committee has not yet had an opportunity to deal with the President's specific recommendations. We have already acted on certain revenue measures, such as the tuition tax credit proposal which has been reported to the Senate, and the energy tax package which is presently before a committee of conference. The Committee notes that, in addition to the President's recommendations, a number of other proposals are likely to be considered which would affect revenues from individual and corporate income, social insurance, and other taxes. In order to accommodate the net impact of legislative action which may be taken in these areas, the Committee recommends that the budget allow for new legislation reducing revenues by $44 billion in fiscal 1979.

The revenue estimate of the Finance Committee includes an assumption that, if it becomes necessary to reenact the Sugar Act, the Committee will propose a renewal of the sugar excise tax which would offset any payments under the act to growers. The estimate also includes an allowance to cover minor tax and tariff legislation. The Committee notes that setting a budget resolution revenue total at exactly the level of expected revenues could result in an unfortunate procedural barrier to the consideration of minor tax and tariff bills which have only negligible revenue implications. While such bills have essentially no budgetary impact, they are technically inconsistent with the budget resolution (and after the second budget resolution may be subject to a point of order). To deal with this situation, the Committee on Finance strongly recommends that the revenue total in the budget resolution be set at a level $0.1 billion below the level of revenues otherwise anticipated.

*Budget deficit.*—Table 3 shows the overall budgetary impact of the recommendations of the Committee on Finance concerning the fiscal year 1978 Congressional budget resolution.

## TABLE 3.—BUDGETARY IMPACT OF FINANCE COMMITTEE RECOMMENDATIONS

[In billions of dollars]

| | Revenues | Outlays | Deficit |
|---|---|---|---|
| Present law[1] | 472.2 | 498.5 | —26.4 |
| President's budget | 439.6 | 500.2 | —60.6 |
| Finance Committee recommendation | 428.2 | 501.5 | —73.4 |

[1] Does not include impact of recent Black Lung legislation. See footnote to table 2. For purposes of this table, "present law" outlay totals include proposed legislation in the President's budget which is not within the jurisdiction of the Committee on Finance.

*Public debt limit.*—The permanent debt limit under existing law is $400 billion. In addition, there is a temporary debt limit in effect which brings the overall limit to $752 billion. This temporary limit expires on March 31, 1978, and in the absence of further legislation the debt ceiling would decline to the $400 billion permanent level. The projected deficit for fiscal year 1979 will increase the debt subject to limit to a level of $880 billion under the recommendations of the Committee on Finance contained in this letter. Except for those recommendations, this estimate is computed on the basis of the President's budget. The Budget Committee may, therefore, find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the budget for programs not within the jurisdiction of the Committee on Finance.

## TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES

[In billions of dollars]

| | |
|---|---|
| Debt subject to limit as of September 30, 1978 | 778 |
| Plus: | |
| Federal funds deficit for fiscal year 1979 | 87 |
| Off-budget agency spending financed by Treasury and other financing | 15 |
| Equals: Debt subject to limit as of September 30, 1979 | 880 |

*Tax expenditures.*—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the Committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the Committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated. In doing so, however, the Committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee accepts at face value the tax expenditure listing included in Special Analysis G of the President's budget.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

With every good wish, I am

Sincerely,

RUSSELL B. LONG, *Chairman.*

## LETTER OF TRANSMITTAL

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U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, D.C., March 6, 1979.*

Hon. EDMUND S. MUSKIE,
*Chairman, Committee on the Budget*
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal Budget for fiscal year 1980 which fall within the Committee's jurisdiction as is required by section 301(c) of the Congressional Budget Act of 1974.

*Economic assumptions.*—Many of the components which go to make up the budget totals are highly susceptible to relatively slight changes in economic conditions. The economic assumptions underlying the budget are presented on page 35 of the President's budget. For purposes of the first concurrent resolution on the budget, the Finance Committee accepted these assumptions.

While the President's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are other alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in the revenue and outlay estimates.

*Expenditure programs.*—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures totalling about one-half of the entire Federal budget. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include Medicare, Medicaid, and maternal and child health, as well as national health insurance proposals. Other programs within the Committee's jurisdiction which involve expenditure of Federal funds include social services and revenue sharing. Interest on the public debt, which on a gross basis will account for some $66 billion in Federal outlays during the coming fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in Table 1 should be allowed in the concurrent budget resolution for these programs. The Finance Committee estimates for fiscal year 1980 would represent an overall reduction in net outlays of $1.8 billion as compared with existing law. The Committee recognizes that achieving reductions of this magnitude is an ambitious goal which will require the prompt but careful consideration of significant legislative changes. The overall total is consistent with that proposed by the President but the Committee expects that in many instances it may attempt to achieve that goal in different programs or through proposals different from those indicated in the President's budget.

TABLE 1.—FINANCE COMMITTEE RECOMMENDATIONS CONCERNING BUDGET AUTHORITY AND OUTLAY UNDER COMMITTEE JURISDICTION: FISCAL 1980

[In billions of dollars]

| Functional category | | Budget authority | Outlays |
|---|---|---|---|
| 350 | Agriculture | 0 | 0 |
| | New legislation | −.4 | −.4 |
| 450 | Community and regional development | .1 | .1 |
| 500 | Education, training, employment, and social services | 3.8 | 3.7 |
| | New legislation | +.5 | +.5 |
| 550 | Health | 48.8 | 46.6 |
| | New legislation | [1] | −1.5 |
| 600 | Income security | 147.7 | 144.3 |
| | New legislation | [1] | −.7 |
| 850 | General purpose fiscal assistance | 7.1 | 7.1 |
| | New legislation | +.3 | +.3 |
| 900 | Interest | [2] 66.0 | [2] 66.0 |

[1] Major elements of the health and income security categories are composed of trust fund programs in which a reduction in expenditures is not reflected in a reduction in budget authority. Budget authority for those programs is controlled by income rather than outgo totals. At this time, the committee recommends that no net reduction in budget authority for these categories be assumed. To the extent that the anticipated reductions in expenditures are subsequently achieved in non-trust-fund programs, some reductions in the level of budget authority may be possible.

[2] Certain offsetting interest receipts reduce the budgetary impact of this total to $57,000,000,000.

*Agriculture.*—The Sugar Act expired on December 31, 1974. In fiscal year 1975, the last fiscal year the program was in effect, $86 million was appropriated to cover Sugar Act program payments for the 1974 crop year. An amendment to the Food and Agriculture Act of 1977 contained a price-support program. The price of the 1977 and

1978 crops of sugar beets and sugarcane was supported via a tariff and supplemental fee, imposed under Presidential proclamation, in addition to the price-support program.

The International Sugar Agreement, which is now before the Senate for its advice and consent as a treaty, would require new implementing legislation within the jurisdiction of the Finance Committee.

The estimate in Table 1 assumes the enactment of legislation which would support the price of sugar at a level sufficient to result in the repayment of existing loans. This would represent a net budgetary inflow of the magnitude indicated even if the new sugar legislation should include a payments program.

*Education, training, employment, and social services.*—In this category, there are several programs under the jurisdiction of the Committee on Finance including the general social services program under title XX of the Social Security Act, the child welfare services program, and the work incentive program (WIN) for employable recipients of aid to families with dependent children. In developing its estimates for this function the Committee has taken into account the requirements for providing adequate funding for these three programs. The Committee notes that the present law funding level shown in the table actually represents a decline from the 1979 level since the title XX program was increased to a $2.9 billion level for fiscal 1979 but would revert to $2.5 billion in fiscal 1980 in the absence of further legislation.

*Health.*—The Committee on Finance has jurisdiction over the Medicare, Medicaid, and maternal and child health programs. The Committee recommends that the Congressional budget for fiscal year 1980 assume that net reductions totalling $1.5 billion will be achieved in this category. The President's budget estimated gross savings of some $2.1 billion and net savings of $1.8 billion in Finance Committee health programs. The Committee believes that its estimate represents a more realistic assessment of the maximum that can be achieved in this area.

*Income security.*—In the income security function of the budget, the Committee on Finance has jurisdiction over the basic national social insurance and public assistance programs. The major programs involved are old-age, survivors, and disability insurance, supplemental security income for the aged, blind, and disabled, aid to families with dependent children, and unemployment compensation. Under the revised budget conventions adopted last year the refundable aspects of tax credits are now treated as expenditure items. As a result, the income security category estimates now include the refundable part of the earned income tax credit and would include any refundability in the President's proposal for real wage insurance. The Committee recommendation for this function indicates allowance for legislative changes which would on a net basis reduce outlays by $0.7 billion.

*General purpose fiscal assistance.*—This function of the budget includes general revenue sharing, countercyclical and targeted revenue sharing, and other items such as payments to Puerto Rico of amounts equal to certain tax collections. The countercyclical revenue sharing program expired at the end of fiscal year 1978, and the President's budget has recommended a new targeted revenue sharing program. The Committee recommendations that $0.3 billion be allowed for possible new legislation in this budget function would be sufficient to accommodate the outlays resulting from such legislation or from a somewhat larger program if it is determined to be appropriate when that legislation is considered substantively.

*Interest.*—The interest function in the budget includes interest on the public debt, interest payments on certain tax refunds, and certain offsetting interest receipts. The Committee estimates that present law, as modified by legislative proposals of President Carter not within this Committee's jurisdiction, will involve gross interest on the public debt of $65.7 billion.

### TABLE 2.—FISCAL YEAR 1980 FINANCE COMMITTEE REVENUE ESTIMATES

| | Billions |
|---|---|
| Present law | $504.4 |
| Allowance for legislation (net) | −1.9 |
| Present law and legislation | 502.6 |

*Revenues.*—The different types of Federal revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

The President's budget for fiscal year 1980 proposes revenue reductions totalling $1.9 billion as compared with present law. The Committee has not yet had an opportunity to deal with the President's specific recommendations. As in the case with expenditures, the Committee notes that its acceptance of this revenue goal does necessarily reflect any determination with respect to particular legislative proposals. It indicates that, whatever revenue proposals may be considered, the Committee will attempt on a net basis to arrive at an overall revenue level which is no more than $1.9 billion below the level of present law (as determined under the economic assumptions in the President's budget.)

The revenue estimate of the Finance Committee includes an allowance to cover minor tax and tariff legislation. The Committee notes that setting a budget resolution revenue total at exactly the level of expected revenues could result in an unfortunate procedural barrier to the consideration of minor tax and tariff bills which have only negligible revenue implications. While such bills have essentially no budgetary impact, they are technically inconsistent with the budget resolution (and after the second budget resolution may be subject to a point of order). To deal with this situation, the Committee on Finance strongly recommends that the revenue total in the budget resolution be set at a level $0.1 billion below the level of revenues otherwise anticipated.

*Budget deficit.*—Table 3 shows the overall budgetary impact of the recommendations of the Committee on Finance concerning the fiscal year 1980 Congressional budget resolution.

### TABLE 3.—BUDGETARY IMPACT OF FINANCE COMMITTEE RECOMMENDATIONS

[In billions of dollars]

| | Revenues | Outlays | Deficit |
|---|---|---|---|
| Present law [1] | 504.4 | 533.4 | |
| President's budget | 502.6 | 531.6 | 29.0 |
| Finance Committee recommendation | 502.6 | 531.6 | 29.0 |

[1] For purposes of this table, "present law" outlay totals include proposed legislation in the President's budget which is not within the jurisdiction of the Committee on Finance.

*Public debt limit.*—The permanent debt limit under existing law is $400 billion. In addition, there is a temporary debt limit in effect which brings the overall limit to $798 billion. This temporary limit expires on March 31, 1979, and in the absence of further legislation the debt ceiling would decline to the $400 billion permanent level. The projected deficit for fiscal year 1980 will increase the debt subject to limit to a level of $893 billion under the recommendations of the Committee on Finance contained in this letter. Except for those recommendations, this estimate is computed on the basis of the President's budget. The Budget Committee may, therefore, find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the budget for programs not within the jurisdiction of the Committee on Finance.

TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES

| | Billions |
|---|---|
| Debt subject to limit [1] as of Sept. 30, 1979 | $883 |
| Plus: | |
| Federal funds deficit for fiscal year 1980 | 49 |
| Off-budget agency spending financed by Treasury and other financing | 11 |
| Equals: Debt subject to limit as of Sept. 30, 1980 | 893 |

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[1] From p. 120 of the President's budget (Special Analyses Volume).

*Tax expenditures.*—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the Committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the Committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated in the President's budget. In doing so, however, the Committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee simply transmits as its report the tax expenditure listing included in Special Analysis G of the President's budget.

*Five-year budgetary outlook.*—As indicated above, the Committee's budgetary estimates for fiscal year 1980 anticipate an overall reduction of $1.8 billion in expenditures. As a general proposition, legislative changes which result in lowered costs for the upcoming fiscal year tend to have even greater savings in future years. However, that is not always true. For example, in the Agriculture function, the Committee's estimated net reduction is based on a one-time loan repayment phenomenon.

Even where it can be anticipated that savings will grow in future years, the magnitude and timing of those savings depends heavily on the exact nature of the specific legislative change which is arrived at only after the entire process of substantive consideration by the Committee and the Congress. Moreover, the budgetary estimates presented in this letter are net amounts which the Committee may ultimately arrive at through a combination of legislative changes involving both increased costs in some cases and cost reductions in others. For example, in both the health and income security categories there are a number of proposals which the Committee may be asked to consider for program changes which would involve increased costs.

Similarly, the revenue goal of a reduction of $1.9 billion for the coming fiscal year is a net figure whose detailed composition and future year impact can be determined only after the Committee has completed the legislative consideration of various competing proposals. In future years as in past years, it may be anticipated that revenue goals will be established which vary from year to year depending upon the changing economic needs and conditions of the country.

The Committee recognizes that the Congressional Budget Act requires the Budget Committees to undertake an analysis of the five-year budgetary outlook and include projections in their reports on the budget resolution. This is a useful and appropriate element in Congressional consideration of broad budgetary perspectives. However, for the reasons cited above, the Committee believes that an attempt by substantive committees to provide detailed projections of the likely impact of legislative changes on future fiscal years would be a highly speculative exercise if done prior to actual legislative consideration. The Committee does recognize the importance of future year budgetary impact projections and believes that the Budget Act and the Legislative Reorganization Act properly impose on substantive committees the obligation to make such projections when they have completed legislative consideration and are reporting a measure to the Senate.

To assist the Budget Committee in carrying out its responsibilities for long-range projections, I am enclosing a copy of Finance Committee Print 96–3 which includes present law projections of certain trust fund programs (see pages 16, 20, and 50). Present law revenue projections appear in the President's budget on pages 43 and 44.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

With every good wish, I am

Sincerely,

RUSSELL B. LONG,
*Chairman.*

U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, D.C., March 4, 1980.*

Hon. EDMUND S. MUSKIE,
*Chairman, Committee on the Budget,*
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal budget for fiscal year 1981 which fall within the Committee's jurisdiction as is required by section 301(c) of the Congressional Budget Act of 1974.

*Economic assumptions.*—Many of the components which go to make up the budget totals are highly susceptible to relatively slight changes in economic conditions. The economic assumptions underlying the budget are presented on page 31 of the President's budget. For purposes of the first concurrent resolution on the budget, the Finance Committee accepted these assumptions.

While the President's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in the revenue and outlays estimates.

TABLE 1.—FINANCE COMMITTEE RECOMMENDATIONS CONCERNING BUDGET AUTHORITY AND OUTLAYS UNDER COMMITTEE JURISDICTION: FISCAL 1981

[In billions of dollars]

| Functional category | | Budget authority | Outlays |
|---|---|---|---|
| 450 | Community and regional development | 0.1 | 0.1 |
| 550 | Education, training, employment, and social services | 3.9 | 3.8 |
| | New legislation | +.5 | +.5 |
| 500 | Health | 61.5 | 54.3 |
| | New legislation | +.4 | −.3 |
| 600 | Income security | 168.5 | 173.9 |
| | New legislation | +.8 | +.5 |
| 850 | General purpose fiscal assistance | .2 | 1.9 |
| | New legislation | +7.9 | +6.1 |
| 900 | Interest | 80.1 | 80.1 |

*Expenditure programs.*—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include Medicare, Medicaid, and maternal and child health, as well as national health insurance proposals. Other programs, within the Committee's jurisdiction which involve expenditure of Federal funds include social services and revenue sharing. Interest on the public debt, which on a gross basis will account for some $79 billion in Federal outlays during the coming fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in Table 1 should be allowed in the concurrent budget resolution for these programs. Except in the health function, the overall total is consistent with that proposed by the President but the Committee expects that in many instances it may attempt to achieve that goal in different programs or through proposals different from those indicated in the President's budget.

*Education, training, employment, and social services.*—In this category, there are several programs under the jurisdiction of the Committee on Finance including the general social services program under title XX of the Social Security Act, the child welfare services program, and the work incentive program (WIN) for employable recipients of aid to families with dependent children. In developing its estimates for this function the Committee has taken into account the requirements for providing adequate funding for these three programs. The Committee notes that the present law funding level shown in the table actually represents a decline from the 1979 level since the title XX program was increased to a $2.9 billion level for fiscal 1979 but would revert to $2.5 billion in and after fiscal 1980 in the absence of further legislation. Legislation is now pending in conference which could require the funding shown for new legislation in this category.

*Health.*—The Committee on Finance has jurisdiction over the Medicare, Medicaid, and maternal and child health programs. The Committee recommends that the Congressional budget for fiscal year 1981 assume that net outlay reductions totalling $0.3 billion will be achieved in this category. The President's budget estimated gross savings of some $1.1 billion and net savings of $0.8 billion in Finance Committee health programs. The Committee believes that its estimate represents a more realistic assessment of the maximum that can be achieved in this area. The Committee's estimate is based on legislation already approved by the Committee plus an allowance for further legislation it may consider later this year.

*Income security.*—In the income security function of the budget, the Committee on Finance has jurisdiction over the basic national social insurance and public assistance programs. The major programs involved are old-age, survivors, and disability insurance, supplemental security income for the aged, blind, and disabled, aid to families with dependent children, and unemployment compensation. Under the revised budget conventions adopted in 1978 the refundable aspects of tax credits are now treated as expenditure items. As a result, the income security category estimates now include the refundable part of the earned income tax credit. The Committee recommendation for this function indicates allowance for legislative changes which would on a net basis increase outlays by $0.5 billion. As with the health function, the Committee's estimate reflects both legislation already approved by the Committee and an allowance for additional legislative actions which may be considered.

*General purpose fiscal assistance.*—This function of the budget includes general revenue sharing, countercyclical and targeted revenue sharing, and other items such as payments to Puerto Rico of amounts equal to certain tax collections. The countercyclical revenue sharing program expired at the end of fiscal year 1978, and the general revenue sharing program will expire at the end of fiscal year 1980. The President's budget has recommended a new targeted revenue sharing program and an extension of the general revenue sharing program. The Committee recommendation that $7.9 billion be allowed for possible new legislation in this budget function would be sufficient to accommodate the outlays resulting from such legislation.

*Interest.*—The interest function in the budget includes interest on the public debt, interest payments on certain tax refunds, and certain offsetting interest receipts. The Committee estimates that present law, as modified by legislative proposals of President Carter not within this Committee's jurisdiction, will involve gross interest on the public debt of $79.4 billion.

TABLE 2.—FISCAL YEAR 1981 FINANCE COMMITTEE REVENUE RECOMMENDATIONS

| | Billions |
|---|---|
| Present law | $581.2 |
| Allowance for legislation (net) | 18.8 |
| Present law and legislation | 600.0 |

*Revenues.*—The different types of Federal revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

The President's budget for fiscal year 1981 estimates total revenues of $600 billion. The Committee on Finance recommends that this same overall revenue total be adopted for purposes of the first concurrent budget resolution. The Committee's estimate of $18.8 billion in revenues under new legislation includes estimated net revenue impact of +$17.3 billion under the conference agreement on H.R. 3919, the Crude Oil Windfall Profit Tax Act of 1979. The conference agreement on that legislation establishes Congressional intent as to the distribution of revenues generated by that tax under current or future assumptions as to the price of oil. Except as provided in that conference agreements, the Committee recommends that, if revenues increase above $600 billion as a result of changing economic conditions, any such additional revenues be devoted to tax relief or to a reduction in the deficit and not be used for spending increases.

The revenue estimate of the Finance Committee includes an allowance to cover minor tax and tariff legislation. The Committee notes that setting a budget resolution revenue total at exactly the level of expected revenues could result in an unfortunate procedural barrier to the consideration of minor tax and tariff bills which have only negligible revenue implications. While such bills have essentially no budgetary impact, they are technically inconsistent with the budget resolution (and after the second budget resolution may be subject to a point of order). To deal with this situation, the Committee on Finance strongly recommends that the revenue total in the budget resolution be set at a level $0.1 billion below the level of revenues otherwise anticipated.

The Committee also wishes to note that it does not have any plans to consider proposals to tax social security benefits.

*Budget deficit.*—Table 3 shows the overall budgetary impact of the recommendations of the Committee on Finance concerning the fiscal year 1981 Congressional budget resolution.

*Public debt limit.*—The permanent debt limit under existing law is $400 billion. In addition, there is a temporary debt limit in effect which brings the overall limit to $879 billion. This temporary limit expires on May 31, 1980, and in the absence of further legislation the debt ceiling would decline to the $400 billion permanent level. The projected deficit for fiscal year 1980 will increase the debt subject

## TABLE 3.—BUDGETARY IMPACT OF FINANCE COMMITTEE RECOMMENDATIONS

[In billions of dollars]

| | Revenues | Outlays | Deficit |
|---|---|---|---|
| Present law [1] | 581 | 610 | |
| President's budget | 600 | 616 | 16 |
| Finance Committee recommendations | 600 | 616 | 16 |

[1] For purposes of this table, "present law" outlay totals include proposed legislation in the President's budget which is not within the jurisdiction of the Committee on Finance.

to limit to a level of $934 billion on the basis of the President's budget. The Budget Committee may find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the budget for programs not within the jurisdiction of the Committee on Finance.

## TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES IN PRESIDENT'S BUDGET

| | Billions |
|---|---|
| Debt subject to limit as of Sept. 30, 1980 | $887 |
| Plus: | |
| Federal funds deficit for fiscal year 1980 | 46 |
| Off-budget agency spending financed by Treasury and other financing | 1 |
| Equals: Debt subject to limit as of Sept. 30, 1981 | 934 |

*Tax expenditures.*—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the Committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the Committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated in the President's budget. In doing so, however, the Committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee simply transmits as its report the tax expenditure listing included in Special Analysis G of the President's budget.

*Five-year budgetary outlook.*—The magnitude and timing of savings or expenditures which may result from changes in the law to be recommended by the Committee during the upcoming session of the Congress will depend heavily on the exact nature of each specific legislative change. This result is arrived at only after the entire process of substantive consideration by the Committee and the Congress. Moreover, the budgetary estimates presented in this letter are net amounts which the Committee may ultimately achieve through a combination of legislative changes involving both increased costs in some cases and cost reductions in others. For example, in both the health and income security categories there are a number of proposals which the Committee may be asked to consider for program changes which would involve increased costs.

Similarly, the revenue goal for the coming fiscal year is a net figure whose detailed composition and future year impact can be determined only after the Committee has completed the legislative consideration of various competing proposals. In future years as in past years, it may be anticipated that revenue goals will be established which vary from year to year depending upon the changing economic needs and conditions of the country.

The Committee recognizes that the Congressional Budget Act requires the Budget Committees to undertake an analysis of the five-year budgetary outlook and include projections in their reports on the budget resolution. This is a useful and appropriate element in Congressional consideration of broad budgetary perspectives. However, for the reasons cited above, the Committee believes that an attempt by substantive committees to provide detailed projections of the likely impact of legislative changes on future fiscal years would be a highly speculative exercise if done prior to actual legislative consideration. The Committee does recognize the importance of future year budgetary impact projections and believes that the Budget Act and the Standing Rules of the Senate properly impose on substantive committees the obligation to make such projections when they have completed legislative consideration and are reporting a measure to the Senate.

To assist the Budget Committee in carrying out its responsibilities for long-range projections, I am enclosing a copy of Finance Committee Print 96–31 which includes present law projections of certain trust fund programs (see pages 18 and 52). Present law revenue projections appear in the President's budget on pages 61 and 71.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

With every good wish, I am

Sincerely,

Russell B. Long, *Chairman.*

U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, D.C., March 18, 1981.*

Hon. PETE V. DOMENICI,
*Chairman, Committee on the Budget,*
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal budget for fiscal year 1982 that fall within the Committee's jurisdiction as is required by section 301(c) of the Congressional Budget Act of 1974.

*Economic assumptions.*—Many of the components which make up the budget totals are highly sensitive to relatively slight changes in economic conditions. The economic assumptions underlying the budget are presented on pages 12–13 of President Reagan's fiscal year 1982 budget revisions. For purposes of the first concurrent resolution on the budget, the Finance Committee accepted these assumptions.

While the President's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in the revenue and outlays estimates. (We are also attaching Senator Bradley's views on the Administration's economic assumptions.)

TABLE 1.—FINANCE COMMITTEE RECOMMENDATIONS CONCERNING BUDGET AUTHORITY AND OUTLAYS UNDER COMMITTEE JURISDICTION: FISCAL YEAR 1982

[In billions of dollars]

| Functional category | Budget authority | Outlays |
|---|---|---|
| 450 Community and regional development | 0.1 | 0.1 |
| 500 Education, training, employment, and social services | 3.6 | 3.6 |
| New legislation | –.8 | –.8 |
| 550 Health | 76.1 | 67.0 |
| New legislation | –2.0 | –2.0 |
| 600 Income security[1] | 194.1 | 199.4 |
| New legislation | –2.8 | –6.5 |
| 850 General purpose fiscal assistance | 4.8 | 4.8 |
| 900 Interest | 98.7 | 98.7 |

[1] Assumes adoption of a hardship block grant at a $1.4 billion level in lieu of low income energy assistance.

*Expenditure programs.*—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include Medicare, Medicaid, and maternal and child health, as well as national health insurance proposals. Other programs, within the committee's jurisdiction which involve the expenditure of Federal funds include social services and revenue sharing. Interest on the public debt, which on a gross basis will account for some $98.7 billion in Federal outlays during the coming fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in Table 1 should be allowed in the concurrent budget resolution for these programs. The overall total is consistent with that proposed by the President, but the committee anticipates that in many instances it may attempt to achieve that goal in different programs or through proposals different from those indicated in the President's budget.

*Education, training, employment, and social services.*—In this category, there are several programs under the jurisdiction of the Committee on Finance including the general social services program under title XX of the Social Security Act, the child welfare services program, and the work incentive program (WIN) for employable recipients of aid to families with dependent children. The committee recommends that the Congressional budget for fiscal year 1982 assume that net outlay reductions totalling $0.8 billion will be achieved in this function.

*Health.*—The Committee on Finance has jurisdiction over the Medicare, Medicaid, and maternal and child health programs. The Committee recommends that the congressional budget for fiscal year 1982 assume that net outlay reductions totalling $2.0 billion will be achieved in the health function.

*Income security.*—In the income security function of the budget, the Committee on Finance has jurisdiction over the basic national social insurance and public assistance programs. The major programs involved are old-age, survivors, and disability insurance, supplemental security income for the aged, blind, and disabled, aid to families with dependent children, and unemployment compensation. Under the revised budget conventions adopted in 1978 the refundable aspects of tax credits are now treated as expenditure items. As a result, the income security category estimates now include the refundable part of the earned income tax credit. The committee recommends that the congressional budget for fiscal year 1982 assume that net outlay reductions of $6.5 billion will be achieved in the income security function.

*General purpose fiscal assistance.*—This function of the budget includes general revenue sharing, and other items such as payments to Puerto Rico of amounts equal to certain tax collections. The general revenue sharing program last year was extended through fiscal year 1983. The committee recommended that $4.8 billion be included in the fiscal year 1982 budget for this function.

*Interest.*—The interest function in the budget includes interest on the public debt, interest payments on certain tax refunds, and certain offsetting interest receipts. The committee estimates that present law, as modified by legislative proposals of President Reagan not within this committee's jurisdiction, will involve gross interest payments of $98.7 billion and net interest payments of $82.5 billion.

TABLE 2.—FISCAL YEAR 1982 FINANCE COMMITTEE REVENUE PAYMENTS RECOMMENDATIONS

| | Billions |
|---|---|
| Present law | $701.6 |
| Allowance for legislation (net) | −51.4 |
| Present law and legislation | 650.2 |

*Revenues.*—The different types of Federal revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

The President's revised budget for fiscal year 1982 estimates total revenues of $650.3 billion. The Committee on Finance recommends that a $650.2 billion overall revenue total be adopted for purposes of the first concurrent budget resolution. This recommendation contemplates a $51.4 billion net reduction in revenues from current law. The committee has not endorsed any particular tax reduction proposal and may enact a smaller tax cut if spending reduction goals are not met.

The revenue estimate of the Finance Committee includes an allowance to cover minor tax and tariff legislation. The committee notes that setting a budget resolution revenue total at exactly the level of expected revenues could result in an unfortunate procedural barrier to the consideration of minor tax and tariff bills which have only negligible revenue implications. While such bills have essentially no budgetary impact, they are technically inconsistent with the budget resolution (and after the second budget resolution may be subject to a point of order). To deal with this situation, the Committee on Finance strongly recommends that the revenue total in the budget resolution be set at a level $0.1 billion below the level of revenues otherwise anticipated.

*Budget deficit.*—Table 3 shows the overall budgetary impact of the recommendations of the Committee on Finance concerning the fiscal year 1982 Congressional budget resolution.

### TABLE 3.—BUDGETARY IMPACT OF FINANCE COMMITTEE RECOMMENDATIONS

[In billions of dollars]

| | Revenues | Outlays | Deficit |
|---|---|---|---|
| Present law [1] | 701.6 | 729.7 | 28.6 |
| Finance Committee recommendations | 650.2 | 695.3 | 45.1 |

[1] Outlays based on the February 18, 1981 "Current Policy" base.

*Public debt limit.*—The permanent debt limit under existing law is $400 billion. In addition, there is a temporary debt limit in effect which brings the overall limit to $985 billion. This temporary limit expires on September 30, 1981, and in the absence of further legislation the debt ceiling would decline to the $400 billion permanent level. The projected deficit for fiscal year 1982 will increase the debt subject to limit to a level of $1,071.2 billion on the basis of the President's budget. The Budget Committee may find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the budget for programs not within the jurisdiction of the Committee on Finance.

### TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES IN PRESIDENT'S BUDGET

| | Billions |
|---|---|
| Estimated debt subject to limit as of Sept. 30, 1981 | $987.4 |
| Plus: | |
| Federal funds deficit for fiscal year 1982 | 66.7 |
| Off-budget agency spending financed by Treasury and other financing | 17.1 |
| Equals: Debt subject to limit as of Sept. 30, 1982 | 1,071.2 |

*Tax expenditures.*—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated in the President's budget. In doing so, however, the committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee simply transmits as its report the tax expenditure listing included in Special Analysis G of the President's budget.

*Five-year budgetary outlook.*—The magnitude and timing of savings or expenditures which may result from changes in the law to be recommended by the committee during the upcoming session of the Congress will depend heavily on the exact nature of each specific legislative change. This result is arrived at only after the entire process of substantive consideration by the committee and the Congress. Moreover, the budgetary estimates presented in this letter are net amounts which the committee may ultimately achieve through a combination of legislative changes involving both increased costs in some cases and cost reductions in others. For example, in both the health and income security categories there are a number of proposals which the committee may be asked to consider for program changes which would involve increased costs.

Similarly, the revenue goal for the coming fiscal year is a net figure whose detailed composition and future year impact can be determined only after the committee has completed the legislative consideration of various competing proposals. In future years as in past years, it may be anticipated that revenue goals will be established which vary from year to year depending upon the changing economic needs and conditions of the country.

The committee recognizes that the Congressional Budget Act requires the Budget Committees to undertake an analysis of the five-year budgetary outlook and include projections in their reports on the budget resolution. This is a useful and appropriate element in Congressional consideration of broad budgetary perspectives. However, for the reasons cited above, the committee believes that an attempt by substantive committees to provide detailed projections of the likely impact of legislative changes on future fiscal years would be a highly speculative exercise if done prior to actual legislative consideration. The committee does recognize the importance of future year budgetary impact projections and believes that the Budget Act and the Standing Rules of the Senate properly impose on substantive committees the obligation to make such projects when they have completed legislative consideration and are reporting a measure to the Senate.

To assist the Budget Committee in carrying out its responsibilities for long-range projections, I am enclosing a copy of Finance Committee Print 97-3 which includes present law projections of certain trust fund programs (see pages 16 and 52-53). Present law revenue projections appear in President Reagan's Budget Revisions on page 123.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

Sincerely yours,

Bob Dole, *Chairman.*

U.S. SENATE,
COMMITTEE ON FINANCE
*Washington, D.C., March 4, 1982.*

Hon. PETE V. DOMENICI,
*Chairman, Committee on the Budget,*
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal budget for fiscal year 1983 that fall within the Committee's jurisdiction as is required by section 301(c) of the Congressional Budget Act of 1974.

*Economic assumptions.*—Many of the components which make up the budget totals are highly sensitive to relatively slight changes in economic conditions. The economic assumptions underlying the budget are presented on pages 2-1 to 2-16 of the Administration's fiscal year 1983 budget. For purposes of the first concurent resolution on the budget, the Finance Committee accepted these assumptions.

While the Administration's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in the revenue and outlay estimates.

*Committee recommendations.*—The Finance Committee believes that it can reduce the fiscal year 1983 deficit by at least as much as the President's budget. It may raise more revenue than the President proposed and cut spending less or it may cut spending more and increase revenue less. Alternatively it may both cut more spending than the President's budget and increase revenue more than his budget. In this letter we are merely stating that we hope to report legislation that reduces the deficit by at least as much as the President's budget.

Table 1.—FINANCE COMMITTEE FORWARDS RECOMMENDATIONS OF THE PRESIDENT CONCERNING BUDGET AUTHORITY AND OUTLAYS UNDER COMMITTEE JURISDICTION: FISCAL YEAR 1983

[In billions of dollars]

| Functional category | Budget authority | Outlays |
|---|---|---|
| 500—Education, training, employment, and social services | 3.4 | 3.4 |
| New legislation | −.6 | −.6 |
| 550—Health | 82.6 | 77.4 |
| New legislation | −.9 | −3.8 |
| 600—Income security | 205.9 | 213.5 |
| New legislation | −2.1 | −2.1 |
| 850—General purpose fiscal assistance | 4.9 | 4.9 |
| 900—Interest | 133.2 | 133.2 |
| New legislation | −.3 | −.3 |

*Expenditure programs.*—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include Medicare, Medicaid, and maternal and child health, as well as national health insurance proposals. Other programs, within the committee's jurisdiction which involve the expenditure of Federal funds include social services and revenue sharing. Interest on the public debt, which on a gross basis will account for some $132.9 billion in Federal outlays during the coming fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed the Administration's expenditure reduction proposals within its jurisdiction and voted to forward these proposals listed by budget function to the Budget Committee, without endorsement of any specific proposal or functional totals.

*Education, training, employment, and social services.*—In this category, there are several programs under the jurisdiction of the Committee on Finance including the general social services program under title XX of the Social Security Act, the child welfare services program, and the work incentive program (WIN) for employable recipients of aid to families with dependent children. The Administration recommends that the congressional budget for fiscal year 1983 assume that net outlay reductions totaling $0.6 billion will be achieved in this function.

*Health.*—The Committee on Finance has jurisdiction over the Medicare, Medicaid, and maternal and child health programs. The Administration recommends that the congressional budget for fiscal year 1983 assume that net outlay reductions totaling $3.8 billion will be achieved in the health function.

*Income security.*—In the income security function of the budget, the Committee on Finance has jurisdiction over the basic national social insurance and public assistance programs. The major programs involved are old-age, survivors, and disability insurance, supplemental security income for the aged, blind, and disabled, aid to families with dependent children, and unemployment compensation. Under the revised budget conventions adopted in 1978, the refundable aspects of tax credits are now treated as expenditure items. As a result, the income security category estimates now include the refundable part of the earned income tax credit. The Administration recommends that the congressional budget for fiscal year 1983 assume that net outlay reductions of $2.1 billion will be achieved in the income security function.

*General purpose fiscal assistance.*—This function of the budget includes general revenue sharing, and other items such as payments to Puerto Rico of amounts equal to certain tax collections. The general revenue sharing program has been extended through fiscal year 1983. The Administration recommends that $4.9 billion be included in the fiscal year 1983 budget for this function.

*Interest.*—The interest function in the budget includes interest on the public debt, interest payments on certain tax refunds, and certain offsetting interest receipts. The committee estimates that present law, as modified by legislation proposed in the President's budget, will involve gross interest payments of $132.9 billion and net interest payments of $112.5 billion.

Table 2.—FINANCE COMMITTEE FORWARDS THE ADMINISTRATION'S REVENUE RECOMMENDATIONS: FISCAL YEAR 1983

| | Billions |
|---|---|
| Present law | $653.3 |
| New legislation (net) | 12.8 |
| Present law and legislation | 666.1 |

*Revenues.*—The different types of Federal revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

The President's budget for fiscal year 1983 estimates total revenues of $666.1 billion. The President's recommendation contemplates a $12.8 billion net increase in revenues from current law. The Committee on Finance has reviewed the Administration's revenue-raising proposals within its jurisdiction and voted to forward these proposals to the Budget Committee, without endorsement of any specific proposal or the overall revenue total.

Any final estimate of expected revenues should include an allowance to cover minor tax and tariff legislation. The committee notes that setting a budget resolution revenue total at exactly the level of expected revenues could result in an unfortunate procedural barrier to the consideration of minor tax and tariff bills which have only negligible revenue implications. While such bills have essentially no budgetary impact, they are technically inconsistent with the budget resolution (and after the second budget resolution may be subject to a point of order). To deal with this situation, the Committee on Finance strongly recommends that the revenue total in the budget resolution be set at a level $0.1 billion below the level of revenues otherwise anticipated.

*Budget deficit.*—Table 3 shows the overall budgetary impact of the Administration's recommendations concerning the fiscal year 1983 congressional budget resolution.

Table 3.—BUDGETARY IMPACT OF ADMINISTRATION'S RECOMMENDATIONS

[In billions of dollars]

| | Revenues | Outlays | Deficit |
|---|---|---|---|
| Present law | $653.3 | $799.0 | $145.6 |
| Administration recommendations | 666.1 | 757.6 | 91.5 |

*Public debt limit.*—The permanent debt limit under existing law is $400 billion. In addition, there is a temporary debt limit in effect which brings the overall limit to $1,079.8 billion. This temporary limit expires on September 30, 1982 and in the absence of further legislation the debt ceiling would decline to the $400 billion permanent level. The projected deficit for fiscal year 1983 will increase the debt subject to limit to a level of $1,254.3 billion on the basis of the President's budget. The Budget Committee may find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the budget for programs not within the jurisdiction of the Committee on Finance.

TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES IN PRESIDENT'S BUDGET

| | Billions |
|---|---|
| Estimated debt subject to limit as of Sept. 30, 1981 | $1,079.8 |
| Administration's estimate of debt subject to limit Sept. 30, 1982 | 1,130.0 |
| Plus: | |
| Federal funds deficit for fiscal year 1983 | 106.9 |
| Off-budget agency spending financed by Treasury and other financing | 17.4 |
| Equals: Debt subject to limit as of Sept. 30, 1983 | 1,254.3 |

*Tax expenditures.*—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated in the President's budget. In doing so, however, the committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee simply transmits as its report the tax expenditure listing included in Special Analysis G of the President's budget.

*Five-year budgetary outlook.*—The magnitude and timing of savings or expenditures which may result from changes in the law to be recommended by the committee during the upcoming session of the Congress will depend heavily on the exact nature of each specific legislative change. This result is arrived at only after the entire process of substantive consideration by the committee and the Congress. Moreover, budgetary estimates presented in this letter are net amounts which may ultimately be achieved through a combination of legislative changes involving both increased costs in some cases and cost reductions in others.

Similarly, the revenue estimate for the coming fiscal year is a net figure whose detailed composition and future year impact can be determined only after the committee has completed the legislative consideration of various competing proposals. Its goals will be established which vary from year to year depending upon the changing economic needs and conditions of the country.

The committee recognizes that the Congressional Budget Act requires the Budget Committees to undertake an analysis of the five-year budgetary outlook and include projections in their reports on the budget resolution. This is a useful and appropriate element in congressional consideration of broad budgetary perspectives. However, for the reasons cited above, the committee believes that an attempt by substantive committees to provide detailed projections of the likely impact of legislative changes on future fiscal years would be a highly speculative exercise if done prior to actual legislative consideration. The committee does recognize the importance of future year budgetary impact projections and believes that the Budget Act and the Standing Rules of the Senate properly impose on substantive committees the obligation to make such projections when they have completed legislative consideration and are reporting a measure to the Senate.

To assist the Budget Committee in carrying out its responsibilities for long-range projections, I am enclosing a copy of Finance Committee Print 97-11 which includes present law projections of certain trust fund programs (see pages 16 and 54-55). Present law revenue projections appear in the Administration's fiscal year 1983 budget on page 4-2.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

Sincerely yours,

Bob Dole, *Chairman.*

U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, D.C., March 2, 1983.*

Hon. PETE V. DOMENICI,
*Chairman, Committee on the Budget,*
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal budget for fiscal year 1984 that fall within the Committee's jurisdiction as is required by Section 301(c) of the Congressional Budget Act of 1974.

*Economic assumptions.*—Many of the components which make up the budget totals are highly sensitive to relatively slight changes in economic conditions. The economic assumptions underlying the budget are presented on pages 2-2 to 2-24 of the Administration's fiscal year 1984 budget. For purposes of the first concurrent resolution on the budget, the Finance Committee accepted these assumptions.

While the Administration's economic assumptions have used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in the revenue and outlay estimates.

*Committee recommendations.*—The Finance Committee believes that it can reduce the fiscal year 1984 deficit by at least as much as the President's budget. It may raise more revenue than the President proposed and cut spending less or it may cut spending more and increase revenue less. Alternatively, it may both cut more spending than the President's budget and increase revenue more than his budget. In this letter we are merely stating that we hope to report legislation that reduces the deficit by at least as much as the President's budget. (Attached are the additional views of Senators Grassley, Pryor and Boren.)

Table 1.—FINANCE COMMITTEE FORWARDS RECOMMENDATION'S OF THE PRESIDENT CONCERNING BUDGET AUTHORITY AND OUTLAYS UNDER COMMITTEE JURISDICTION: FISCAL YEAR 1984

[In billions of dollars]

| Functional category | Budget authority | Outlays |
|---|---|---|
| 500—Education, training, employment, and social services | 4.0 | 4.0 |
| 550—Health | 87.4 | 88.0 |
| New legislation |  | −2.1 |
| 600—Income security | 211.2 | 229.6 |
| New legislation | +10.0 | −4.5 |
| 850—General purpose fiscal assistance | 5.1 | 5.1 |
| 900—Interest | 146.1 | 146.1 |

*Expenditure programs.*—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include Medicare, Medicaid, and maternal and child health, as well as national health insurance proposals. Other programs within the Committee's jurisdiction which involve the expenditure of Federal funds include social services and revenue sharing. Interest on public debt, which on a gross basis will account for some $144.5 billion in Federal outlays during the coming fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed the Administration's expenditure reduction proposals within its jurisdiction and voted to forward these proposals listed by budget function to the Budget Committee, without endorsement of any specific proposal or functional totals.

*Education, training, employment, and social services.*—In this category, there are several programs under the jurisdiction of the Committee on Finance including the general social services program under Title XX of the Social Security Act, the child welfare services program, and the work incentive program (WIN) for employable recipients of aid to families with dependent children.

*Health.*—The Committee on Finance has jurisdiction over the Medicare, Medicaid, and maternal and child health programs. The Administration recommends that the congressional budget for fiscal year 1984 assume that net outlay reductions totaling $2.1 billion will be achieved in the health function.

*Income security.*—In the income security function of the budget, the Committee on Finance has jurisdiction over the basic national social insurance and public assistance programs. The major programs involved are old-age, survivors, and disability insurance, supplemental security income for the aged, blind, and disabled, aid to families with dependent children, and unemployment compensation. Under the revised budget conventions adopted in 1978, the refundable aspects of tax credits are now treated as expenditure items. As a result, the income security category estimates now include the refundable part of the earned income tax credit. The Administration recommends that the congressional budget for fiscal year 1984 assume that net outlay reductions of $2.7 billion will be achieved in the income security function.

*General purpose fiscal assistance.*—This function of the budget includes general revenue sharing, and other items such as payments to Puerto Rico of amounts equal to certain tax collections. The general revenue sharing program expires at the end of fiscal year 1983. The Administration recommends an extension of this program through fiscal year 1988, and recommends that $5.1 billion be included in the fiscal year 1984 budget for this function.

*Interest.*—The interest function of the budget includes interest on the public debt, interest payments on certain tax refunds, and certain offsetting interest receipts. The Committee estimates that present law will involve gross interest payments of $146.1 billion and net interest payments of $103.2 billion.

Table 2.—FINANCE COMMITTEE FORWARDS THE ADMINISTRATION'S REVENUE RECOMMENDATIONS, FISCAL YEAR 1984

| | Billions |
|---|---|
| Present law | $647.1 |
| Legislation (net) under jurisdiction of Finance Committee | 10.9 |
| Other (Civil Service Retirement) | 1.7 |
| Present law and legislation | 659.7 |

*Revenues.*—The different types of Federal revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

The President's budget for fiscal year 1984 estimates total revenues of $659.7 billion. The President's recommendation contemplates a $10.9 billion net increase in revenues under Finance Committee jurisdiction from current law. The Committee on Finance has reviewed the Administration's revenue-raising proposals within its jurisdiction and voted to forward these proposals to the Budget Committee, without endorsement of any specific proposal or the overall revenue total.

Any final estimate of expected revenues should include an allowance to cover minor tax and tariff legislation. The Committee notes that setting a budget resolution revenue total at exactly the level of expected revenues could result in an unfortunate procedural barrier to the consideration of minor tax and tariff bills which have only negligible revenue implications. While such bills have essentially no budgetary impact, they are technically inconsistent with the budget resolution (and after the second budget resolution may be subject to a point of order). To deal with this situation, the Committee on Finance strongly recommends that the revenue total in the budget resolution be set at a level $0.1 billion below the level of revenues otherwise anticipated.

*Budget deficit.*—Table 3 shows the overall budgetary impact of the Administration's recommendations concerning the fiscal year 1984 congressional budget resolution.

Table 3.—BUDGETARY IMPACT OF ADMINISTRATION'S RECOMMENDATIONS

[In billions of dollars]

| | Revenues | Outlays | Deficit |
|---|---|---|---|
| Present law | 648.8 | 880.3 | 231.5 |
| Administration recommendations | 659.7 | 848.5 | 188.8 |

*Public debt limit.*—The permanent debt limit under existing law is $400 billion. In addition, there is a temporary debt limit in effect which brings the overall limit to $1,290.2 billion. This temporary limit expires on September 30, 1983, and in the absence of further legislation the debt ceiling would decline to the $400 billion permanent level. The projected deficit for fiscal year 1984 will increase the debt subject to limit to a level of $1,602.6 billion on the basis of the President's budget. The Budget Committee may find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the budget for programs not within the jurisdiction of the Committee on Finance.

Table 4.—PUBLIC DEBT LIMIT ESTIMATES IN PRESIDENT'S BUDGET

| | Billions |
|---|---|
| Estimated debt subject to limit as of Sept. 30, 1982 | $1,142.9 |
| Administration's estimate of debt subject to limit Sept. 30, 1983 | 1,379.9 |
| Plus: | |
| Federal funds deficit for fiscal year 1983 | 205.7 |
| Off-budget agency spending financed by Treasury and other financing | 17.0 |
| Equals: Debt subject to limit as of Sept. 30, 1984 | 1,602.6 |

*Tax expenditures.*—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the Committee's view, the questions of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the Committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated in the President's budget. In doing so, however, the Committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee simply transmits as its report the tax expenditure listing included in Special Analysis G of the President's budget.

*Five-year budgetary outlook.*—The magnitude and timing of savings or expenditures which may result from changes in the law to be recommended by the Committee during the upcoming session of the Congress will depend heavily on the exact nature of each specific legislative change. This result is arrived at only after the entire process of substantive consideration by the Committee and the Congress. Moreover, budgetary estimates presented in this letter are net amounts which may ultimately be achieved through a combination of legislative changes involving both increased costs in some cases and cost reductions in others.

Similarly, the revenue estimates for the coming fiscal year is a net figure whose detailed composition and future year impact can be determined only after the Committee has completed the legislative consideration of various competing proposals. Goals will be established which vary from year to year depending upon the changing economic needs and conditions of the country.

The Committee recognizes that the Congressional Budget Act requires the Budget Committee to undertake an analysis of the 5-year budgetary outlook and include projections in their reports on the budget resolution. This is a useful and appropriate element in congressional consideration of broad budgetary perspectives. However, for the reasons cited above, the Committee believes that an attempt by substantive committees to provide detailed projections of the likely impact of legislative changes on future fiscal years would be a highly speculative exercise if done prior to actual legislative consideration. The Committee does recognize the importance of future year budgetary impact projections and believes that the Budget Act and the Standing Rules of the Senate properly impose on substantive committees the obligation to make such projections when they have completed legislative consideration and are reporting a measure to the Senate.

To assist the Budget Committee in carrying out its responsibilities for long-range projections, I am enclosing a copy of Finance Committee Print 98-13 which includes present law projections of certain trust fund programs (see pages 18 and 64). Present law revenue projections appear in the Administration's FY 1984 budget on page 4-3.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

Sincerely yours,

Bob Dole, *Chairman.*

ROBERT J. DOLE, KANS., CHAIRMAN

BOB PACKWOOD, OREG.
WILLIAM V. ROTH, JR., DEL.
JOHN C. DANFORTH, MO.
JOHN H. CHAFEE, R.I.
JOHN HEINZ, PA.
MALCOLM WALLOP, WYO.
DAVID DURENBERGER, MINN.
WILLIAM L. ARMSTRONG, COLO.
STEVEN D. SYMMS, IDAHO
CHARLES E. GRASSLEY, IOWA

RUSSELL B. LONG, LA.
LLOYD BENTSEN, TEX.
SPARK M. MATSUNAGA, HAWAII
DANIEL PATRICK MOYNIHAN, N.Y.
MAX BAUCUS, MONT.
DAVID L. BOREN, OKLA.
BILL BRADLEY, N.J.
GEORGE J. MITCHELL, MAINE
DAVID PRYOR, ARK.

RODERICK A. DeARMENT, CHIEF COUNSEL AND STAFF DIRECTOR
MICHAEL STERN, MINORITY STAFF DIRECTOR

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

March 26, 1984

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal budget for fiscal year 1985 that fall within the Committee's jurisdiction as is required by Section 301(c) of the Congressional Budget Act of 1974.

As you are aware, our current budget situation requires timely action to lower the Federal budget deficit. In order to assure an early and successful resolution of the fiscal year 1985 budget, the Committee on Finance began marking up a deficit reduction package on February 23, 1984. The Committee has completed action on the package and this letter reports the results of our deliberations.

Economic assumptions and baseline. For purposes of scoring the legislative changes contained in the package, the Committee adopted the Congressional Budget Office baseline for programs within its jurisdiction. The CBO baseline embodies its own economic assumptions as well as certain technical differences with the Administration's baseline. If the Budget Committee decides to adopt a different baseline or set of economic assumptions, an appropriate adjustment should be made in revenue and outlay estimates.

TABLE 1.--OUTLAY REDUCTIONS IN PROGRAMS UNDER FINANCE COMMITTEE JURISDICTION: FY 1985

| | Outlay Savings (in billions) |
|---|---|
| Medicaid | $ .5 |
| Medicare | 1.9 |
| Income Security | .2 |
| Payments to Puerto Rico | .3 |
| Debt Service | 1.0 |
| Total Outlay Savings | 3.8 |

Outlays. The Committee on Finance has reviewed its spending programs and has recommended changes which reduce outlays within its jurisdiction by $3.8 billion, including $1.0 billion in reduced interest costs.

TABLE 2.--FINANCE COMMITTEE RECOMMENDATIONS FOR REVENUE: FY 1985

| | Billions |
|---|---|
| Present law | $732.9 |
| Legislation (net) under jurisdiction of Finance Committee | 10.3 |
| Total Revenues | $743.2 |

Revenues. The Finance Committee recommends legislative changes that would increase revenues by $10.3 in fiscal year 1985. The Committee recognizes that actions of other committees may affect the projected revenue total as well.

Public debt limit. The permanent debt limit under existing law is $1,490 billion. The projected deficit for fiscal year 1985 will increase the debt subject to limit to a level of $1,534 billion according to CBO estimates. The Budget Committee may find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the budget for programs not within the jurisdiction of the Committee on Finance.

TABLE 3.--PUBLIC DEBT LIMIT ESTIMATES
(CBO PROJECTIONS)

| | Billions |
|---|---|
| Debt subject to limit as of September 30, 1983 | $1,142 |
| Estimate of debt subject to limit September 30, 1984 | 1,327 |
| Plus: | |
| Federal funds deficit for fiscal year 1984 | 195 |
| Off-budget agency spending financed by Treasury and other financing | 13 |
| Equals: Debt subject to limit as of September 30, 1985 | 1,534 |

Tax expenditures. The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the Committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the Committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated in the President's budget. In doing so, however, the Committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee simply transmits as its report the tax expenditure listing included in Special Analysis G of the President's budget.

Long-term budgetary outlook. The Congressional Budget Act requires the Budget Committee to undertake an analysis of the long term budgetary outlook and include projections in their report on the budget resolution. In order to assist the Budget Committee in this activity, the Finance Committee reports below the four-year projection for outlay savings and revenue increases.

TABLE 4.--FOUR-YEAR BUDGET ESTIMATES OF FINANCE COMMITTEE PROPOSALS

| | FY1984 | FY1985 | FY1986 | FY1987 | 4-YEAR TOTAL |
|---|---|---|---|---|---|
| Outlay Savings (including debt service) | .2 | 3.8 | 8.0 | 12.4 | 24.5 |
| Revenue | 2.6 | 10.3 | 15.9 | 19.3 | 48.1 |
| Total Deficit Reduction | 2.8 | 14.1 | 23.9 | 31.7 | 72.6 |

In order to arrive at total outlay and revenue totals under Finance Committee jurisdiction, these figures should be applied to the Congressional Budget Office baseline.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

Sincerely yours,

BOB DOLE
Chairman

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510

March 5, 1985

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
Washington, D.C. 20510

Dear Mr. Chairman:

This letter responds to your letter of February 22, 1985, and transmits the view of a majority of the members of the Committee on Finance on how much deficit reduction can be achieved in fiscal years 1986, 1987 and 1988 in programs within the Committee's jurisdiction. As you indicated in your letter, this communication replaces the "views and estimates" report normally required under section 301(c) of the Congressional Budget Act.

For fiscal years 1986, 1987 and 1988, according to spending cuts recommended by the Office of Management and Budget (OMB) and the Budget Committee, the Finance Committee would need to achieve savings amounting to $63.3 billion (based on estimates made by OMB). As you requested, we have had the savings of those spending cuts reestimated by the Congressional Budget Office (CBO). According to CBO and the Budget Committee as of February 28, 1985, those same spending cuts would achieve savings of about $51.2 billion.

The Finance Committee will meet its responsibility for achieving $51.2 billion in spending cuts over the three fiscal years in question IF ALL OTHER MAJOR COMMITTEES CAN MEET THE SPENDING CUTS TOTALS REQUIRED OF THEM.

To the extent that CBO changes its baseline projections or its estimates of savings for any programs within the Finance Committee's jurisdiction and to the extent the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in our spending reductions goal.

The Finance Committee has not agreed to any specific list of spending cuts and reserves the right to achieve a reduction in spending for programs within its jurisdiction in such amounts and in any manner it determines is necessary and appropriate.

We hope that this information is helpful to the Budget Committee in its deliberations on the first concurrent resolution on the budget for fiscal year 1986. The Finance Committee staff is available to answer any questions you may have.

Sincerely,

Bob

BOB PACKWOOD

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510

February 18, 1986

Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This letter responds to your letter of February 13, 1986, and transmits the view of the Committee on Finance on how much deficit reduction can be achieved in fiscal years 1987, 1988, and 1989 in programs within the Committee's jurisdiction. This communication constitutes the report required under section 301(d) of the Congressional Budget Act.

For fiscal years 1987, 1988, and 1989, according to the President's Budget for FY 1987, the Finance Committee would need to achieve a deficit reduction amounting to $52.0 billion (based on estimates made by the Administration).

The Finance Committee will meet it's responsibility for achieving a deficit reduction of $52.0 billion over the three fiscal years in question IF ALL OTHER MAJOR COMMITTEES MEET THE SPENDING CUTS TOTALS REQUIRED OF THEM and IF THE CURRENT ADMINISTRATION ESTIMATES HOLD.

The Committee wishes to express its concern over the valuation of the President's proposals. While we have indicated our intent to reduce the deficit by $52.0 billion you should know that the Committee feels its only responsibility is to reduce the deficit in an amount equivalent to that which would be achieved by the President's proposals. If the President's proposals are re-estimated, whether by the Congressional Budget Office or the Budget Committee, the Committee's responsibility to reduce the deficit only extends to the deficit reduction expected to be achieved by the entirety of the President's proposals after the re-estimation.

To the extent that CBO changes baseline projections or re-estimates proposals for any programs within the Finance Committee's jurisdiction and to the extent the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment must be made in our deficit reduction goal. You should know, however, that once our deficit reduction goal is established by the budget resolution, the Committee is disturbed about the way further re-estimates have the effect of creating a moving target for the Committee. We ask that action be taken to address this concern.

The Finance Committee has not agreed to any specific list of deficit reduction proposals and reserves the right to achieve deficit reduction for programs within it's jurisdiction in such amounts and in any manner it determines is necessary and appropriate.

We hope that this information is helpful to the Budget Committee in its deliberations on the concurrent resolution on the budget for fiscal year 1987. The Finance Committee staff is available to answer any questions you may have.

Sincerely,
BOB PACKWOOD, Chairman

# APPENDIX B

## Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974, as Amended

(Including Amendments Made by the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings; P.L. 99-177))

## DEFINITIONS

SEC. 3. (a) IN GENERAL.—For purposes of this Act—

(1) The terms "budget outlays" and "outlays" mean, with respect to any fiscal year, expenditures and net lending of funds under budget authority during such year.

(2) The term "budget authority" means authority provided by law to enter into obligations which will result in immediate or future outlays involving Government funds or to collect offsetting receipts,[1] except that such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or Government.

(3) The term "tax expenditures" means those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability; and the term "tax expenditures budget" means an enumeration of such tax expenditures.

(4) The term "concurrent resolution on the budget" means—

(A) a concurrent resolution setting forth the congressional budget for the United States Government for a fiscal year as provided in section 301; and

(B) any other concurrent resolution revising the congressional budget for the United States Government for a fiscal year as described in section 304.

(5) The term "appropriation Act" means an Act referred to in section 105 of title 1, United States Code.

(6) The term "deficit" means, with respect to any fiscal year, the amount by which total budget outlays for such fiscal year exceed total revenues for such fiscal year. In calculating the deficit for purposes of comparison with the maximum deficit amount under the Balanced Budget and Emergency Deficit Control Act of 1985 and in calculating the excess deficit for purposes of sections 251 and 252 of such Act (notwithstanding section 710(a) of the Social Security Act), for any fiscal year, the receipts of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund for such fiscal year and the taxes payable under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954 during such fiscal year shall be included in total revenues for such fiscal year, and the disbursements of each such Trust Fund for such fiscal year shall be included in total budget outlays for such fiscal year. Notwithstanding any other provision of law except to the extent provided by section 710(a) of the Social Security Act, the receipts, revenues, disbursements,

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[1] The language "or to collect offsetting receipts" becomes effective on April 15, 1986.

budget authority, and outlays of each off-budget Federal entity for a fiscal year shall be included in total budget authority, total budget outlays, and total revenues and the amounts of budget authority and outlays set forth for each major functional category, for such fiscal year. Amounts paid by the Federal Financing Bank for the purchase of loans made or guaranteed by a department, agency, or instrumentality of the Government of the United States shall be treated as outlays of such department, agency, or instrumentality.[2]

*[Section 3(7) expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(A).]*

(7) The term "maximum deficit amount" means—

(A) with respect to the fiscal year beginning October 1, 1985, $171,900,000,000;

(B) with respect to the fiscal year beginning October 1, 1986, $144,000,000,000;

(C) with respect to the fiscal year beginning October 1, 1987, $108,000,000,000;

(D) with respect to the fiscal year beginning October 1, 1988, $72,000,000,000;

(E) with respect to the fiscal year beginning October 1, 1989, $36,000,000,000; and

(F) with respect to the fiscal year beginning October 1, 1990, zero.

(8) The term "off-budget Federal entity" means any entity (other than a privately owned Government-sponsored entity)—

(A) which is established by Federal law, and

(B) the receipts and disbursements of which are required by law to be excluded from the totals of—

(*i*) the budget of the United States Government submitted by the President pursuant to section 1105 of title 31, United States Code, or

(*ii*) the budget adopted by the Congress pursuant to title III of this Act.

(9) The term "entitlement authority" means spending authority described by section 401(c)(2)(C).

(10) The term "credit authority" means authority to incur direct loan obligations or to incur primary loan guarantee commitments.

## TITLE III—CONGRESSIONAL BUDGET PROCESS

### TIMETABLE

Sec. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

| On or before: | Action to be completed: |
|---|---|
| First Monday after January 3 | President submits his budget. |
| February 15 | Congressional Budget Office submits report to Budget Committees. |
| February 25 | Committees submit views and estimates to Budget Committees. |

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[2] The second sentence of section 3(6) expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(A).

| On or before: | Action to be completed: |
|---|---|
| April 1 | Senate Budget Committee reports concurrent resolution on the budget. |
| April 15 | Congress completes action on concurrent resolution on the budget. |
| May 15 | Annual appropriation bills may be considered in the House. |
| June 10 | House Appropriations Committee reports last annual appropriation bill. |
| June 15 | Congress completes action on reconciliation legislation. |
| June 30 | House completes action on annual appropriation bills. |
| October 1 | Fiscal year begins. |

### ANNUAL ADOPTION OF CONCURRENT RESOLUTION ON THE BUDGET

SEC. 301. (a) CONTENT OF CONCURRENT RESOLUTION ON THE BUDGET.—On or before April 15 of each year, the Congress shall complete action on a concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth appropriate levels for the fiscal year beginning on October 1 of such year, and planning levels for each of the two ensuing fiscal years, for the following—

(1) totals of new budget authority, budget outlays, direct loan obligations, and primary loan guarantee commitments;

(2) total Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(3) the surplus or deficit in the budget;

(4) new budget authority, budget outlays, direct loan obligations, and primary loan guarantee commitments for each major functional category, based on allocations of the total levels set forth pursuant to paragraph (1); and

(5) the public debt.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The concurrent resolution on the budget may—

(1) set forth, if required by subsection (f), the calendar year in which, in the opinion of the Congress, the goals for reducing unemployment set forth in section 4(b) of the Employment Act of 1946 should be achieved;

(2) include reconciliation directives described in section 310;

(3) require a procedure under which all or certain bills or resolutions providing new budget authority or new entitlement authority for such fiscal year shall not be enrolled until the Congress has completed action on any reconciliation bill or reconciliation resolution or both required by such concurrent resolution to be reported in accordance with section 310(b); and

(4) set forth such other matters, and require such other procedures, relating to the budget, as may be appropriate to carry out the purposes of this Act.

(c) CONSIDERATION OF PROCEDURES OR MATTERS WHICH HAVE THE EFFECT OF CHANGING ANY RULE OF THE HOUSE OF REPRESENTATIVES.—If the Committee on the Budget of the House of Representatives reports any concurrent resolution on the budget which includes any procedure or matter which has the effect of changing any rule of the House of Representatives, such concurrent resolution shall then be referred to the Committee on Rules with instructions to report it within five calendar days (not counting any day on which the House is not in session). The Committee on Rules shall have jurisdiction to report any concurrent resolution referred to it under this paragraph with an amendment or amendments changing or striking out any such procedure or matter.

(d) Views and Estimates of Other Committees.—On or before February 25 of each year, each committee of the House of Representatives having legislative jurisdiction shall submit to the Committee on the Budget of the House and each committee of the Senate having legislative jurisdiction shall submit to the Committee on the Budget of the Senate its views and estimates (as determined by the committee making such submission) with respect to all matters set forth in subsections (a) and (b) which relate to matters within the jurisdiction or functions of such committee. The Joint Economic Committee shall submit to the Committees on the Budget of both Houses its recommendations as to the fiscal policy appropriate to the goals of the Employment Act of 1946. Any other committee of the House of Representatives or the Senate may submit to the Committee on the Budget of its House, and any joint committee of the Congress may submit to the Committees on the Budget of both Houses, its views and estimates with respect to all matters set forth in subsections (a) and (b) which relate to matters within its jurisdiction or functions.

(e) Hearings and Report.—In developing the concurrent resolution on the budget referred to in subsection (a) for each fiscal year, the Committee on the Budget of each House shall hold hearings and shall receive testimony from Members of Congress and such appropriate representatives of Federal departments and agencies, the general public, and national organizations as the committee deems desirable. Each of the recommendations as to short-term and medium-term goals set forth in the report submitted by the members of the Joint Economic Committee under subsection (d) may be considered by the Committee on the Budget of each House as part of its consideration of such concurrent resolution, and its report may reflect its views thereon, including its views on how the estimates of revenues and levels of budget authority and outlays set forth in such concurrent resolution are designed to achieve any goals it is recommending. The report accompanying such concurrent resolution shall include, but not be limited to—

(1) a comparison of revenues estimated by the committee with those estimates in the budget submitted by the President;

(2) a comparison of the appropriate levels of total budget outlays and total new budget authority, total direct loan obligations, total primary loan guarantee commitments, as set forth in such concurrent resolution, with those estimated or requested in the budget submitted by the President;

(3) with respect to each major functional category, an estimate of budget outlays and an appropriate level of new budget authority for all proposed programs and for all existing programs (including renewals thereof) with the estimate and level for existing programs being divided between permanent authority and funds provided in appropriation Acts, and with

each such division being subdivided between controllable amounts and all other amounts;

(4) an allocation of the level of Federal revenues recommended in the concurrent resolution among the major sources of such revenues;

(5) the economic assumptions and objectives which underlie each of the matters set forth in such concurrent resolution and any alternative economic assumptions and objectives which the committee considered;

(6) projections (not limited to the following), for the period of five fiscal years beginning with such fiscal year, of the estimated levels of total budget outlays and total new budget authority, the estimated revenues to be received, and the estimated surplus or deficit, if any, for each fiscal year in such period, and the estimated levels of tax expenditures (the tax expenditures budget) by major functional categories;

(7) a statement of any significant changes in the proposed levels of Federal assistance to State and local governments;

(8) information, data, and comparisons indicating the manner in which, and the basis on which, the committee determined each of the matters set forth in the concurrent resolution; and

(9) allocations described in section 302(a).

(f) ACHIEVEMENT OF GOALS FOR REDUCING UNEMPLOYMENT.—

(1) If, pursuant to section 4(c) of the Employment Act of 1946, the President recommends in the Economic Report that the goals for reducing unemployment set forth in section 4(b) of such Act be achieved in a year after the close of the five-year period prescribed by such subsection, the concurrent resolution on the budget for the fiscal year beginning after the date on which such Economic Report is received by the Congress may set forth the year in which, in the opinion of the Congress, such goals can be achieved.

(2) After the Congress has expressed its opinion pursuant to paragraph (1) as to the year in which the goals for reducing unemployment set forth in section 4(b) of the Employment Act of 1946 can be achieved, if, pursuant to section 4(e) of such Act, the President recommends in the Economic Report that such goals be achieved in a year which is different from the year in which the Congress has expressed its opinion that such goals should be achieved, either in its action pursuant to paragraph (1) or in its most recent action pursuant to this paragraph, the concurrent resolution on the budget for the fiscal year beginning after the date on which such Economic Report is received by the Congress may set forth the year in which, in the opinion of the Congress, such goals can be achieved.

(3) It shall be in order to amend the provision of such resolution setting forth such year only if the amendment thereto also proposes to alter the estimates, amounts, and levels (as described in subsection (a)) set forth in such resolution in germane fashion in order to be consistent with the economic goals (as described in sections 3(a)(2) and 4(b) of the Employment Act of 1946) which such amendment proposes can be achieved by the year specified in such amendment.

(g) COMMON ECONOMIC ASSUMPTIONS.—The joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall set forth the common economic assumptions upon which such joint statement and conference report are based, or upon which any amendment contained in the joint explanatory statement to be proposed by the conferees in the case of technical disagreement is based.

(h) BUDGET COMMITTEES CONSULTATION WITH COMMITTEES.—The Committee on the Budget of the House of Representatives shall consult with the committees of its House having legislative jurisdiction during the preparation, consideration, and enforcement of the concurrent resolution on the budget with respect to all matters which relate to the jurisdiction of functions of such committees.

*[Section 301(i) expires on September 30, 1991; P.L. 99–177, section 275(b)(2)(B).]*

(i) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.—

(1)(A) Except as provided in paragraph (2), it shall not be in order in either the House of Representatives or the Senate to consider any concurrent resolution on the budget for a fiscal year under this section, or to consider any amendment to such a concurrent resolution, or to consider a conference report on such a concurrent resolution, if the level of total budget outlays for such fiscal year that is set forth in such concurrent resolution or conference report exceeds the recommended level of Federal revenues set forth for that year by an amount that is greater than the maximum deficit amount for such fiscal year as determined under section 3(7), or if the adoption of such amendment would result in a level of total budget outlays for that fiscal year which exceeds the recommended level of Federal revenues for that fiscal year, by an amount that is greater than the maximum deficit amount for such fiscal year as determined under section 3(7).

(B) In the House of Representatives the point of order established under subparagraph (A) with respect to the consideration of a conference report or with respect to the consideration of a motion to concur, with or without an amendment or amendments, in a Senate amendment, the stage of disagreement having been reached, may be waived only by a vote of three-fifths of the Members present and voting, a quorum being present.

(2) Paragraph (1) of this subsection shall not apply if a declaration of war by the Congress is in effect.

### COMMITTEE ALLOCATIONS

*[Section 302(c), (f), and (g) become effective on April 15, 1986; P.L. 99–177, section 275(a)(2)(A).]*

SEC. 302. (a) ALLOCATION OF TOTALS.—

(1) For the House of Representatives, the joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall include an estimated allocation, based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays, total new budget authority, total entitlement

authority, and total credit authority among each committee of the House of Representatives which has jurisdiction over laws, bills and resolutions providing such new budget authority, such entitlement authority, or such credit authority. The allocation shall, for each committee, divide new budget authority entitlement authority, and credit authority between amounts provided or required by law on the date of such conference report (mandatory or uncontrollable amounts), and amounts not so provided or required (discretionary or controllable amounts), and shall make the same division for estimated outlays that would result from such new budget authority.

(2) For the Senate, the joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall include an estimated allocation, based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays, total new budget authority and new credit authority among each committee of the House of Representatives and the Senate which has jurisdiction over bills and resolutions providing such new budget authority.

(b) REPORTS BY COMMITTEES.—As soon as practicable after a concurrent resolution on the budget is agreed to—

(1) the Committee on Appropriations of each House shall, after consulting with the Committee on Appropriations of the other House, (A) subdivide among its subcommittees the allocation of budget outlays, new budget authority, and new credit authority allocated to it in the joint explanatory statement accompanying the conference report on such concurrent resolution, and (B) further subdivide the amount with respect to each such subcommittee between controllable amounts and all other amounts; and

(2) every other committee of the House and Senate to which an allocation was made in such joint explanatory statement shall, after consulting with the committee or committees of the other House to which all or part of its allocation was made, (A) subdivide such allocation among its subcommittees or among programs over which it has jurisdiction, and (B) further subdivide the amount with respect to each subcommittee or program between controllable amounts and all other amounts.

Each such committee shall promptly report to its House the subdivisions made by it pursuant to this subsection.

(c) POINT OF ORDER.—It shall not be in order in the House of Representatives or the Senate to consider any bill or resolution, or amendment thereto, providing—

(1) new budget authority for a fiscal year;

(2) new spending authority as described in section 401(c)(2) for a fiscal year; or

(3) new credit authority for a fiscal year;

within the jurisdiction of any committee which has received an appropriate allocation of such authority pursuant to subsection (a) for such fiscal year, unless and until such committee makes the allocation or subdivisions required by subsection (b), in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year.

(d) SUBSEQUENT CONCURRENT RESOLUTIONS.—In the case of a concurrent resolution on the budget referred to in section 304, the allocations under subsection (a) and the subdivisions under subsection (b) shall be required only to the extent necessary to take into account revisions made in the most recently agreed to concurrent resolution on the budget.

(e) ALTERATION OF ALLOCATIONS.—At any time after a committee reports the allocations required to be made under subsection (b), such committee may report to its House an alteration of such allocations. Any alteration of such allocations must be consistent with any actions already taken by its House on legislation within the committee's jurisdiction.

(f) LEGISLATION SUBJECT TO POINT OF ORDER.—

(1) IN THE HOUSE OF REPRESENTATIVES.—After the Congress has completed action on a concurrent resolution on the budget for a fiscal year, it shall not be in order in the House of Representatives to consider any bill, resolution, or amendment providing new budget authority for such fiscal year, new entitlement authority effective during such fiscal year, or new credit authority for such fiscal year, or any conference report on any such bill or resolution, if—

(A) the enactment of such bill or resolution as reported;

(B) the adoption and enactment of such amendment; or

(C) the enactment of such bill or resolution in the form recommended in such conference report,

would cause the appropriate allocation made pursuant to subsection (b) for such fiscal year of new discretionary budget authority, new entitlement authority, or new credit authority to be exceeded.

(2) IN THE SENATE.—At any time after the Congress has completed action on the concurrent resolution on the budget required to be reported under section 301(a) for a fiscal year, it shall not be in order in the Senate to consider any bill or resolution (including a conference report thereon), or any amendment to a bill or resolution, that provides for budget outlays or new budget authority in excess of the appropriate allocation of such outlays or authority reported under subsection (b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year.

(g) DETERMINATIONS BY BUDGET COMMITTEES.—For purposes of this section, the levels of new budget authority, spending authority as described in section 401(c)(2), outlays and new credit authority for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or the State, as the case may be.

### CONCURRENT RESOLUTION ON THE BUDGET MUST BE ADOPTED BEFORE LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, NEW CREDIT AUTHORITY, OR CHANGES IN REVENUES OR THE PUBLIC DEBT LIMIT IS CONSIDERED

SEC. 303. (a) IN GENERAL.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution (or amendment thereto) as reported to the House or Senate which provide—

(1) new budget authority for a fiscal year;

(2) an increase or decrease in revenues to become effective during a fiscal year;

(3) an increase or decrease in the public debt limit to become effective during a fiscal year;

(4) new entitlement authority to become effective during a fiscal year; or

(5) new credit authority for a fiscal year,

until the concurrent resolution on the budget for such fiscal year has been agreed to pursuant to section 301.

(b) EXCEPTIONS.—Subsection (a) does not apply to any bill or resolution—

(1) providing new budget authority which first becomes available in a fiscal year following the fiscal year to which the concurrent resolution applies; or

(2) increasing or decreasing revenues which first become effective in a fiscal year following the fiscal year to which the concurrent resolution applies.

After May 15 of any calendar year, subsection (a) does not apply in the House of Representatives to any general appropriation bill, or amendment thereto, which provides new budget authority for the fiscal year beginning in such calendar year.

(c) WAIVER IN THE SENATE.—

(1) The committee of the Senate which reports any bill or resolution (or amendment thereto) to which subsection (a) applies may at or after the time it reports such bill or resolution (or amendment), report a resolution to the Senate (A) providing for the waiver of subsection (a) with respect to such bill or resolution (or amendment), and (B) stating the reasons why the waiver is necessary. The resolution shall then be referred to the Committee on the Budget of the Senate. That committee shall report the resolution to the Senate within 10 days after the resolution is referred to it (not counting any day on which the Senate is not in session) beginning with the day following the day on which it is so referred, accompanied by that committee's recommendations and reasons for such recommendations with respect to the resolution. If the committee does not report the resolution within such 10-day period, it shall automatically be discharged from further consideration of the resolution and the resolution shall be placed on the calendar.

(2) During the consideration of any such resolution, debate shall be limited to one hour, to be equally divided between, and controlled by, the majority leader and minority leader or their designees, and the time on any debatable motion or appeal shall be limited to twenty minutes, to be equally divided between, and controlled by, the mover and the manager of the resolution. In the event the manager of the resolution is in favor of any such motion or appeal, the time in opposition thereto shall be controlled by the minority leader or his designee. Such leaders, or either of them, may, from the time under their control on the passage of such resolution, allot additional time to any Senator during the consideration of any debatable motion or appeal. No amendment to the resolution is in order.

(3) If, after the Committee on the Budget has reported (or been discharged from further consideration of) the resolution, the Senate agrees to the resolution, then subsection (a) shall not apply with respect to the bill or resolution (or amendment thereto) to which the resolution so agreed to applies.

### PERMISSIBLE REVISIONS OF CONCURRENT RESOLUTIONS ON THE BUDGET

SEC. 304. (a) IN GENERAL.—At any time after the concurrent resolution on the budget for a fiscal year has been agreed to pursuant to section 301, and before the end of such fiscal year, the two Houses may adopt a concurrent resolution on the budget which revises or reaffirms the concurrent resolution on the budget for such fiscal year most recently agreed to.

*[Section 304(b) expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(B).]*

(b) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.—The provisions of section 301(i) shall apply with respect to concurrent resolutions on the budget under this section (and amendments thereto and conference reports thereon) in the same way they apply to concurrent resolutions on the budget under such section 301(i) (and amendments thereto and conference reports thereon).

### PROVISIONS RELATING TO THE CONSIDERATION OF CONCURRENT RESOLUTIONS ON THE BUDGET

SEC. 305. (a) PROCEDURE IN HOUSE OF REPRESENTATIVES AFTER REPORT OF COMMITTEE DEBATE.—

(1) When the Committee on the Budget of the House of Representatives has reported any concurrent resolution on the budget, it is in order at any time after the fifth day (excluding Saturdays, Sundays, and legal holidays) following the day on which the report upon such resolution by the Committee on the Budget has been available to Members of the House and, if applicable, after the first day (excluding Saturdays, Sundays, and legal holidays) following the day on which a report upon such resolution by the Committee on Rules pursuant to section 301(c) has been available to Members of the House (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of the concurrent resolution. The motion is highly privileged and is not debatable. An amendment to the motion is not in order, and it is not in order to move to reconsider the vote by which the motion is agreed to or disagreed to.

(2) General debate on any concurrent resolution on the budget in the House of Representatives shall be limited to not more than 10 hours, which shall be divided equally between majority and minority parties, plus such additional hours of debate as are consumed pursuant to paragraph (3). A motion further to limit debate is not debatable. A motion to recommit the concurrent resolution is not in order, and it is not in order to move to reconsider the vote by which the concurrent resolution is agreed to or disagreed to.

(3) Following the presentation of opening statements on the concurrent resolution on the budget for a fiscal year by the

chairman and ranking minority member of the Committee on the Budget of the House, there shall be a period of up to four hours for debate on economic goals and policies.

(4) Only if a concurrent resolution on the budget reported by the Committee on the Budget of the House sets forth the economic goals (as described in sections 3(a)(2) and 4(b) of the Full Employment Act of 1946) which the estimates, amounts, and levels (as described in section 301(a)) set forth in such resolution are designed to achieve, shall it be in order to offer to such resolution an amendment relating to such goals, and such amendment shall be in order only if it also proposes to alter such estimates, amounts, and levels in germane fashion in order to be consistent with the goals proposed in such amendment.

(5) Consideration of any concurrent resolution on the budget by the House of Representatives shall be in the Committee of the Whole, and the resolution shall be considered for amendment under the five-minute rule in accordance with the applicable provisions of rule XXIII of the rules of the House of Representatives. After the Committee rises and reports the resolution back to the House, the previous question shall be considered as ordered on the resolution and any amendments thereto to final passage without intervening motion; except that it shall be in order at any time prior to final passage (notwithstanding any other rule or provision of law) to adopt an amendment (or a series of amendments) changing any figure or figures in the resolution as so reported to the extent necessary to achieve mathematical consistency.

(6) Debate in the House of Representatives on the conference report on any concurrent resolution on the budget shall be limited to not more than 5 hours, which shall be divided equally between the majority and minority parties. A motion further to limit debate is not debatable. A motion to recommit the conference report is not in order, and it is not in order to move to reconsider the vote by which the conference report is agreed to or disagreed to.

(7) Appeals from decisions of the Chair relating to the application of the Rules of the House of Representatives to the procedure relating to any concurrent resolution on the budget shall be decided without debate.

(b) PROCEDURE IN SENATE AFTER REPORT OF COMMITTEE; DEBATE; AMENDMENTS.—

(1) Debate in the Senate on any concurrent resolution on the budget, and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 50 hours, except that with respect to any concurrent resolution referred to in section 304(a) all such debate shall be limited to not more than 15 hours. The time shall be equally divided between, and controlled by, the majority leader and the minority leader or their designees.

(2) Debate in the Senate on any amendment to a concurrent resolution on the budget shall be limited to 2 hours, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution, and debate on any

amendment to an amendment, debatable motion, or appeal shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution, except that in the event the manager of the concurrent resolution is in favor of any such amendment, motion, or appeal, the time in opposition thereto shall be controlled by the minority leader or his designee. No amendment that is not germane to the provisions of such concurrent resolution shall be received. Such leaders, or either of them, may, from the time under their control on the passage of the concurrent resolution, allot additional time to any Senator during the consideration of any amendment, debatable motion, or appeal.

(3) Following the presentation of opening statements on the concurrent resolution on the budget for a fiscal year by the chairman and ranking minority member of the Committee on the Budget of the Senate, there shall be a period of up to four hours for debate on economic goals and policies.

(4) Subject to the other limitations of this Act, only if a concurrent resolution on the budget reported by the Committee on the Budget of the Senate sets forth the economic goals (as described in sections 3(a)(2) and 4(b) of the Employment Act of 1946) which the estimates, amounts, and levels (as described in section 301(a)) set forth in such resolution are designed to achieve, shall it be in order to offer to such resolution an amendment relating to such goals, and such amendment shall be in order only if it also proposes to alter such estimates, amounts, and levels in germane fashion in order to be consistent with the goals proposed in such amendment.

(5) A motion to further limit debate is not debatable. A motion to recommit (except a motion to recommit with instructions to report back within a specified number of days, not to exceed 3, not counting any day on which the Senate is not in session) is not in order. Debate on any such motion to recommit shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution.

(6) Notwithstanding any other rule, an amendment or series of amendments to a concurrent resolution on the budget proposed in the Senate shall always be in order if such amendment or series of amendments proposes to change any figure or figures then contained in such concurrent resolution so as to make such concurrent resolution mathematically consistent or so as to maintain such consistency.

(c) ACTION ON CONFERENCE REPORTS IN THE SENATE.—

(1) The conference report on any concurrent resolution on the budget shall be in order in the Senate at any time after the third day (excluding Saturdays, Sundays, and legal holidays) following the day on which such conference report is reported and is available to Members of the Senate. A motion to proceed to the consideration of the conference report may be made even though a previous motion to the same effect has been disagreed to.

(2) During the consideration in the Senate of the conference report on any concurrent resolution on the budget, debate

shall be limited to 10 hours, to be equally divided between, and controlled by, the majority leader and minority leader or their designees. Debate on any debatable motion or appeal related to the conference report shall be limited to 1 hour, to be equally divided between and controlled by, the mover and the manager of the conference report.

(3) Should the conference report be defeated, debate on any request for a new conference and the appointment of conferees shall be limited to 1 hour, to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designeee, and should any motion be made to instruct the conferees before the conferees are named, debate on such motion shall be limited to one-half hour, to be equally divided between, and controlled by, the mover and the manager of the conference report. Debate on any amendment to any such instructions shall be limited to 20 minutes, to be equally divided between and controlled by the mover and the manager of the conference report. In all cases when the manager of the conference report is in favor of any motion, appeal, or amendment, the time in opposition shall be under the control of the minority leader or his designee.

(4) In any case in which there are amendments in disagreement time on each amendment shall be limited to 30 minutes, to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designee. No amendment that is not germane to the provisions of such amendments shall be received.

(d) REQUIRED ACTION BY CONFERENCE COMMITTEE.—If at the end of 7 days (excluding Saturdays, Sundays, and legal holidays) after the conferees of both Houses have been appointed to a committee of conference on a concurrent resolution on the budget, the conferees are unable to reach agreement with respect to all matters in disagreement between the two Houses, then the conferees shall submit to their respective Houses, on the first day thereafter on which their House is in session—

(1) a conference report recommending those matters on which they have agreed and reporting in disagreement those matters on which they have not agreed; or

(2) a conference report in disagreement, if the matter in disagreement is an amendment which strikes out the entire text of the concurrent resolution and inserts a substitute text.

(e) CONCURRENT RESOLUTION MUST BE CONSISTENT IN THE SENATE.—It shall not be in order in the Senate to vote on the question of agreeing to—

(1) a concurrent resolution on the budget unless the figures then contained in such resolution are mathematically consistent; or

(2) a conference report on a concurrent resolution on the budget unless the figures contained in such resolution, as recommended in such conference report, are mathematically consistent.

### LEGISLATION DEALING WITH CONGRESSIONAL BUDGET MUST BE HANDLED BY BUDGET COMMITTEES

SEC. 306. No bill or resolution, and no amendment to any bill or resolution, dealing with any matter which is within the jurisdiction of the Committee on the Budget of either House shall be considered in that House unless it is a bill or resolution which has been reported by the Committee on the Budget of that House (or from the consideration of which such committee has been discharged) or unless it is an amendment to such a bill or resolution.

### HOUSE COMMITTEE ACTION ON ALL APPROPRIATION BILLS TO BE COMPLETED BY JUNE 10

SEC. 307. On or before June 10 of each year, the Committee on Appropriations of the House of Representatives shall report annual appropriation bills providing new budget authority under the jurisdiction of all of its subcommittees for the fiscal year which begins on October 1 of that year.

### REPORTS, SUMMARIES, AND PROJECTIONS OF CONGRESSIONAL BUDGET ACTIONS

SEC. 308. (a) REPORTS ON LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, OR NEW CREDIT AUTHORITY, OR PROVIDING AN INCREASE OR DECREASE IN REVENUES OR TAX EXPENDITURES.—

(1) Whenever a committee of either House reports to its House a bill or resolution, or committee amendment thereto, providing new budget authority (other than continuing appropriations), new spending authority described in section 401(c)(2), or new credit authority, or providing an increase or decrease in revenues or tax expenditures for a fiscal year, the report accompanying that bill or resolution shall contain a statement, or the committee shall make available such a statement in the case of an approved committee amendment which is not reported to its House, prepared after consultation with the Director of the Congressional Budget Office—

(A) comparing the levels in such measure to the appropriate allocations in the reports submitted under section 302(b) for the most recently agreed to concurrent resolution on the budget for such fiscal year;

(B) including an identification of any new spending authority described in section 401(c)(2) which is contained in such measure and a justification for the use of such financing method instead of annual appropriations;

(C) containing a projection by the Congressional Budget Office of how such measure will affect the levels of such budget authority, budget outlays, spending authority, revenues, tax expenditures, direct loan obligations, or primary loan guarantee commitments under existing law for such fiscal year and each of the four ensuing fiscal years, if timely submitted before such report is filed; and

(D) containing an estimate by the Congressional Budget Office of the level of new budget authority for assistance to

State and local governments provided by such measure, if timely submitted before such report is filed.

(2) Whenever a conference report is filed in either House and such conference report or any amendment reported in disagreement or any amendment contained in the joint statement of managers to be proposed by the conferees in the case of technical disagreement on such bill or resolution provides new budget authority (other than continuing appropriations), new spending authority described in section 401(c)(2), or new credit authority, or provides an increase or decrease in revenues for a fiscal year, the statement of managers accompanying such conference report shall contain the information described in paragraph (1), if available on a timely basis. If such information is not available when the conference report is filed, the committee shall make such information available to Members as soon as practicable prior to the consideration of such conference report.

(b) UP-TO-DATE TABULATIONS OF CONGRESSIONAL BUDGET ACTION.—

(1) The Director of the Congressional Budget Office shall issue to the committees of the House of Representatives and the Senate reports on at least a monthly basis detailing and tabulating the progress of congressional action on bills and resolutions providing new budget authority, new spending authority described in section 410(c)(2), or new credit authority, or providing an increase or decrease in revenues or tax expenditures for a fiscal year. Such reports shall include but are not limited to an up-to-date tabulation comparing the appropriate aggregate and functional levels (including outlays) included in the most recently adopted concurrent resolution on the budget with the levels provided in bills and resolutions reported by committees or adopted by either House or by the Congress, and with the levels provided by law for the fiscal year preceding such fiscal year.

(2) The Committee on the Budget of each House shall make available to Members of its House summary budget scorekeeping reports. Such reports—

(A) shall be made available on at least a monthly basis, but in any case frequently enough to provide Members of each House an accurate representation of the current status of congressional consideration of the budget;

(B) shall include, but are not limited to, summaries of tabulations provided under subsection (b)(1); and

(C) shall be based on information provided under subsection (b)(1) without substantive revision.

The chairman of the Committee on the Budget of the House of Representatives shall submit such reports to the Speaker.

(c) FIVE-YEAR PROJECTION OF CONGRESSIONAL BUDGET ACTION.—As soon as practicable after the beginning of each fiscal year, the Director of the Congressional Budget Office shall issue a report projecting for the period of 5 fiscal years beginning with such fiscal year—

(1) total new budget authority and total budget outlays for each fiscal year in such period;

(2) revenues to be received and the major sources thereof, and the surplus or deficit, if any, for each fiscal year in such period;

(3) tax expenditures for each fiscal year in such period;

(4) entitlement authority for each fiscal year in such period; and

(5) credit authority for each fiscal year in such period.

### HOUSE APPROVAL OF REGULAR APPROPRIATION BILLS

Sec. 309. It shall not be in order in the House of Representatives to consider any resolution providing for an adjournment period of more than three calendar days during the month of July until the House of Representatives has approved annual appropriation bills providing new budget authority under the jurisdiction of all the subcommittees of the Committee on Appropriations for the fiscal year beginning on October 1 of such year. For purposes of this section, the chairman of the Committee on Appropriations of the House of Representatives shall periodically advise the Speaker as to changes in jurisdiction among its various subcommittees.

### RECONCILIATION

*[Section 310 (c), (d), and (g) become effective on April 15, 1986; P.L. 99-177, section 275(a)(2)(A).]*

Sec. 310. (a) Inclusion of Reconciliation Directive in Concurrent Resolutions on the Budget.—A concurrent resolution on the budget for any fiscal year, to the extent necessary to effectuate the provisions and requirements of such resolution, shall—

(1) specify that total amount by which—

(A) new budget authority for such fiscal year;

(B) budget authority initially provided for prior fiscal years;

(C) new entitlement authority which is to become effective during such fiscal year; and

(D) credit authority for such fiscal year, contained in laws, bills, and resolutions within the jurisdiction of a committee, is to be changed and direct that committee to determine and recommend changes to accomplish a change of such total amount;

(2) specify the total amount by which revenues are to be changed and direct that the committees having jurisdiction to determine and recommend changes in the revenue laws, bill, and resolutions to accomplish a change of such total amount;

(3) specify the amounts by which the statutory limit on the public debt is to be changed and direct the committee having jurisdiction to recommend such changes; or

(4) specify and direct any combination of the matters described in paragraphs (1), (2), and (3),

(b) Legislative Procedure.—If a concurrent resolution containing directives to one or more committees to determine and recommend changes in laws, bills, or resolutions is agreed to in accordance with subsection (a), and—

(1) only one committee of the House or the Senate is directed to determine and recommend changes, the committee shall

promptly make such determination and recommendations and report to its House reconciliation legislation containing such recommendations; or

(2) more than one committee of the House or the Senate is directed to determine and recommend changes, each such committee so directed shall promptly make such determination and recommendations and submit such recommendations to the Committee on the Budget of its House, which, upon receiving all such recommendations, shall report to its House reconciliation legislation carrying out all such recommendations without any substantive revision.

For purposes of this subsection, a reconciliation resolution is a concurrent resolution directing the Clerk of the House of Representatives or the Secretary of the Senate, as the case may be, to make specified changes in bills and resolutions which have not been enrolled.

(c) COMPLIANCE WITH RECONCILIATION DIRECTIONS.—Any committee of the House of Representatives or the Senate that is directed, pursuant to a concurrent resolution on the budget, to determine and recommend changes of the type described in paragraphs (1) and (2) of subsection (a) with respect to laws within its jurisdiction, shall be deemed to have complied with such directions—

(1) if—

(A) the amount of the changes of the type described in paragraph (1) of such subsection recommended by such committee do not exceed or fall below the amount of the changes such committee was directed by such concurrent resolution to recommend under such paragraph by more than 20 percent of the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection, and

(B) the amount of the changes of the type described in paragraph (2) of such subsection recommended by such committee do not exceed or fall below the amount of the changes such committee was directed by such concurrent resolution to recommend under that paragraph by more than 20 percent of the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection; and

(2) if the total amount of the changes recommended by such committee is not less than the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection.

(d) LIMITATION ON AMENDMENTS TO RECONCILIATION BILLS AND RESOLUTIONS.—

(1) It shall not be in order in the House of Representatives to consider any amendment to a reconciliation bill or reconciliation resolution if such amendment would have the effect of increasing any specific budget outlays above the level of such outlays provided in the bill or resolution (for the fiscal years covered by the reconciliation instructions set forth in the most recently agreed to concurrent resolution on the budget), or would have the effect of reducing any specific Federal revenues below the level of such revenues provided in the bill or resolu-

tion (for such fiscal years), unless such amendment makes at least an equivalent reduction in other specific budget outlays, an equivalent increase in other specific Federal revenues, or an equivalent combination thereof (for such fiscal years), except that a motion to strike a provision providing new budget authority or new entitlement authority may be in order.

(2) It shall not be in order in the Senate to consider any amendment to a reconciliation bill or reconciliation resolution if such amendment would have the effect of decreasing any specific budget outlay reductions below the level of such outlay reductions provided (for the fiscal years covered) in the reconciliation instructions which relate to such bill or resolution set forth in a resolution providing for reconciliation, or would have the effect of reducing Federal revenue increases below the level of such revenue increases provided (for such fiscal years) in such instructions relating to such bill or resolution, unless such amendment makes a reduction in other specific budget outlays, an increase in other specific Federal revenues, or a combination thereof (for such fiscal years) at least equivalent to any increase in outlays or decrease in revenues provided by such amendment, except that a motion to strike a provision shall always be in order.

(3) Paragraphs (1) and (2) shall not apply if a declaration of war by the Congress is in effect.

(4) For purposes of this section, the levels of budget outlays and Federal revenues for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or of the Senate, as the case may be.

(5) The Committee on Rules of the House of Representatives may make in order amendments to achieve changes specified by reconciliation directives contained in a concurrent resolution on the budget if a committee or committees of the House fail to submit recommended changes to its Committee on the Budget pursuant to its instruction.

(e) PROCEDURE IN THE SENATE.—

(1) Except as provided in paragraph (2), the provisions of section 305 for the consideration in the Senate of concurrent resolutions on the budget and conference reports thereon shall also apply to the consideration in the Senate of reconciliation bills reported under subsection (b) and conference reports thereon.

(2) Debate in the Senate on any reconciliation bill reported under subsection (b), and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 20 hours.

(f) COMPLETION OF RECONCILIATION PROCESS.—

(1) IN GENERAL.—Congress shall complete action on any reconciliation bill or reconciliation resolution reported under subsection (b) not later than June 15 of each year.

(2) POINT OF ORDER IN THE HOUSE OF REPRESENTATIVES.—It shall not be in order in the House of Representatives to consider any resolution providing for an adjournment period of more than three calendar days during the month of July until the

House of Representatives has completed action on the reconciliation legislation for the fiscal year beginning on October 1 of the calendar year to which the adjournment resolution pertains, if reconciliation legislation is required to be reported by the concurrent resolution on the budget for such fiscal year.

(g) LIMITATION ON CHANGES TO THE SOCIAL SECURITY ACT.—Notwithstanding any other provision of law, it shall not be in order in the Senate or the House of Representatives to consider any reconciliation bill or reconciliation resolution reported pursuant to a concurrent resolution on the budget agreed to under section 301 or 304, or a resolution pursuant to section 254(b) of the Balanced Budget and Emergency Deficit Control Act of 1985, or any amendment thereto or conference report thereon, that contains recommendations with respect to the old-age, survivors, and disability insurance program established under title II of the Social Security Act.

### NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, AND REVENUE LEGISLATION MUST BE WITHIN APPROPRIATE LEVELS

SEC. 311. (a) LEGISLATION SUBJECT TO POINT OF ORDER.—Except as provided by subsection (b), after the Congress has completed action on a concurrent resolution on the budget fkr a fiscal year, it shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or amendment providing new budget authority for such fiscal year, providing new entitlement authority effective during such fiscal year, or reducing revenues for such fiscal year, or any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report,

would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year to be exceeded, or would cause revenues to be less than the appropriate level of total revenues set forth in such concurrent resolution or, in the Senate, would otherwise result in a deficit for such fiscal year that exceeds the maximum deficit amount specified for such fiscal year in section 3(7) (except to the extent that paragraph (1) of section 301(i) or section 304(b), as the case may be, does not apply by reason of paragraph (2) of such subsection).[1]

(b) EXCEPTION IN THE HOUSE OF REPRESENTATIVES.—Subsection (a) shall not apply in the House of Representatives to any bill, resolution, or amendment which provides new budget authority or new entitlement authority effective during such fiscal year, or to any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

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[1] The portion of section 311(a) which begins with "or, in the Senate" and ends with "paragraph (2) of such subsection)" expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(B).

(3) the enactment of such bill or resolution in the form recommended in such conference report,

would not cause the appropriate allocation of new discretionary budget authority or new entitlement authority made pursuant to section 302(a) for such fiscal year, for the committee within whose jurisdiction such bill, resolution, or amendment falls, to be exceeded.

(c) DETERMINATION OF BUDGET LEVELS.—For purposes of this section, the levels of new budget authority, budget outlays, new entitlement authority, and revenues for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or of the Senate, as the case may be.

## TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

### BILLS PROVIDING NEW SPENDING AUTHORITY

SEC. 401. (a) CONTROLS ON LEGISLATION PROVIDING SPENDING AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or conference report, as reported to its House which provides new spending authority described in subsection (c)(2) (A) or (B) (or any amendment which provides such new spending authority), unless that bill, resolution, conference report, or amendment also provides that such new spending authority as described in subsection (c)(2) (A) or (B) is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

(b) LEGISLATION PROVIDING ENTITLEMENT AUTHORITY.—

(1) It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(C) (or any amendment which provides such new spending authority) which is to become effective before the first day of the fiscal year which begins during the calendar year in which such bill or resolution is reported.

(2) If any committee of the House of Representatives or the Senate reports any bill or resolution which provides new spending authority described in subsection (c)(2)(C) which is to become effective during a fiscal year and the amount of new budget authority which will be required for such fiscal year if such bill or resolution is enacted as so reported exceeds the appropriate allocation of new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, such bill or resolution shall then be referred to the Committee on Appropriations of that House with instructions to report it, with the committee's recommendations, within 15 calendar days (not counting any day in which that House is not in session) beginning with the day following the day on which it is so referred. If the Committee on Appropriations of either House fails to report a bill or resolution referred to it under this paragraph within such 15-day period, the committee shall auto-

matically be discharged from further consideration of such bill or resolution and such bill or resolution shall be placed on the appropriate calendar.

(3) The Committee on Appropriations of each House shall have jurisdiction to report any bill or resolution referred to it under paragraph (2) with an amendment which limits the total amount of new spending authority provided in such bill or resolution.

(c) DEFINITIONS.—

(1) For purposes of this section, the term "new spending authority" means spending authority not provided by law on the effective date of this Act, including any increase in or addition to spending authority provided by law on such date.

(2) For purposes of paragraph (1), the term "spending authority" means authority (whether temporary or permanent)—

(A) to enter into contracts under which the United States is obligated to make outlays, the budget authority for which is not provided in advance by appropriation Acts;

(B) to incur indebtedness (other than indebtedness incurred under chapter 31 of title 31 of the United States Code) for the repayment of which the United States is liable, the budget authority for which is not provided in advance by appropriation Acts;

(C) to make payments (including loans and grants), the budget authority for which is not provided for in advance by appropriation Acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law;

(D) to forego the collection by the United States for proprietary offsetting receipts, the budget authority for which is not provided in advance by appropriation Acts to offset such foregone receipts; and

(E) to make payments by the United States (including loans, grants, and payments from revolving funds) other than those covered by subparagraph (A), (B), (C), or (D), the budget authority for which is not provided in advance by appropriation Acts.

Such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

(d) EXCEPTIONS.—

(1) Subsections (a) and (b) shall not apply to new spending authority if the budget authority for outlays which will result from such new spending authority is derived—

(A) from a trust fund established by the Social Security Act (as in effect on the date of the enactment of this Act); or

(B) from any other trust fund, 90 percent or more of the receipts of which consist or will consist of amounts (transferred from the general fund of the Treasury) equivalent to amounts of taxes (related to the purposes for which such outlays are or will be made) received in the Treasury under specified provisions of the Internal Revenue Code of 1954.

(2) Subsections (a) and (b) shall not apply to new spending authority which is an amendment to or extension of the State and Local Fiscal Assistance Act of 1972, or a continuation of the program of fiscal assistance to State and local governments provided by that Act, to the extent so provided in the bill or resolution providing such authority.

(3) Subsections (a) and (b) shall not apply to new spending authority to the extent that—

(A) the outlays resulting therefrom are made by an organization which is (i) a mixed-ownership Government corporation (as defined in section 201 of the Government Corporation Control Act), or (ii) a wholly owned Government corporation (as defined in section 101 of such Act) which is specifically exempted by law from compliance with any or all of the provisions of that Act, as of the date of enactment of the Balanced Budget and Emergency Deficit Control Act of 1985; or

(B) the outlays resulting therefrom consist exclusively of the proceeds of gifts or bequests made to the United States for a specific purpose.

### LEGISLATION PROVIDING NEW CREDIT AUTHORITY

*[Section 402, as set forth herein, becomes effective on February 1, 1986; P.L. 99-177, section 275(a)(2)(B).]*

SEC. 402. (a) CONTROLS ON LEGISLATION PROVIDING NEW CREDIT AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or conference report, as reported to its House, or any amendment which provides new credit authority described in subsection (b)(1), unless that bill, resolution, conference report, or amendment also provides that such new credit authority is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

(b) DEFINITION.—For purposes of this Act, the term "new credit authority" means credit authority (as defined in section 3(10) of this Act) not provided by law or the effective date of this section, including any increase in or addition to credit authority provided by law on such date.

# APPENDIX C

## Budget Act Points of Order in the Senate

# BUDGET ACT POINTS OF ORDER IN THE SENATE

| Section | Description | Waiver requirement | Application | Effective date | Expiration date |
|---|---|---|---|---|---|
| 301(i) | Prohibits consideration of budget resolution, amendment thereto, or conference report thereon, which contains deficit in excess of maximum deficit amount. (Also applies to revised budget resolutions via sec. 304(b)). | Three-fifths | Buuget resolution<br>Amendments<br>Conference report | 12-12-85 | 9-30-91 |
| 302(c) | Prohibits consideration of a committee's legislation until that committee has filed its sec. 302(b) report. | Majority | Bill<br>Resolution<br>Amendment | 4-15-86 | |
| 302(f) | Prohibits consideration of legislation providing budget authority or outlays in excess of committee's sec. 302(b) report. | Three-fifths | Bill<br>Resolution<br>Amendment<br>Conference report | 4-15-86 | 9-30-91<br>(Three-fifths expires) |
| 303(a) | Prohibits legislation providing new budget authority, change in revenues, change in public debt, new entitlement authority, or new credit authority for a fiscal year until the budget resolution for that year has been agreed to. | Majority | Bill<br>Resolution<br>Amendment | 12-12-85 | |
| 304(b) | See section 301(i) | Three-fifths | Revised Budget Resolution | 12-12-85 | 9-30-91 |
| 305(b)(2) | Prohibits non-germane amendments to budget resolution (and, by reference, reconciliation bills). | Three-fifths | Amendment | 12-12-85 | |
| 306 | Prohibits consideration of legislation within Budget Committee's jurisdiction, unless the Budget Committee reported it. | Three-fifths | Bill<br>Resolution<br>Amendment | 12-12-85 | |
| 310(d)(2) | Prohibits amendments to reconciliation bills which are not deficit neutral. | Three-fifths | Amendment | 4-15-86 | 9-30-91<br>(Three-fifths expires) |
| 310(g) | Prohibits consideration of reconciliation legislation which recommends changes in social security. | Three-fifths | Bill<br>Resolution<br>Amendment<br>Conference report | 4-15-86 | 9-30-91<br>(Three-fifths expires) |
| 311(a) | Prohibits consideration of legislation which would exceed outlay ceiling or revenue floor, or would cause deficit to exceed maximum deficit amount. | Three-fifths | Bill<br>Resolution<br>Amendment<br>Conference report | 12-12-85 | 9-30-91<br>(MDA expires)<br>(Three-fifths expires) |
| 401(a) | Prohibits consideration of legislation providing new contract authority or new borrowing authority which is not limited to appropriations. | Majority | Bill<br>Resolution<br>Amendment<br>Conference report | 12-12-85 | |
| 401(b)(1) | Prohibits consideration of legislation providing new entitlement authority which becomes effective during the fiscal year which ends in the calendar year in which the bill is reported. | Majority | Bill<br>Resolution<br>Amendment | 12-12-85 | |
| 402 | Prohibits consideration of legislation providing new credit authority which is not limited to appropriations. | Majority | Bill<br>Resolution<br>Amendment<br>Conference report | 2-1-86 | |

# APPENDIX D

## Tax Expenditures by Function (Excerpt From Special Analysis of the Budget of the United States Government—FY 1988, pages G-37—G-46)

Table G–1. OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION

(In millions of dollars)

| Description | Fiscal years | | | | | |
|---|---|---|---|---|---|---|
| | Corporations | | | Individuals | | |
| | 1986 | 1987 | 1988 | 1986 | 1987 | 1988 |
| **National defense:** | | | | | | |
| Exclusion of benefits and allowances to Armed Forces personnel | | | | 2,535 | 2,435 | 2,225 |
| **International affairs:** | | | | | | |
| Exclusion of income earned abroad by United States citizens | | | | 2,405 | 2,350 | 2,225 |
| Exclusion of income of foreign sales corporations (FSC) | 1,575 | 1,475 | 1,310 | | | |
| Inventory property sales source rules exception | | 495 | 705 | | | |
| Certain nonfinancial institutions operations interest allocation rules exception | | 25 | 55 | | | |
| Deferral of income from controlled foreign corporations: | | | | | | |
| Pre-1983 budget method | 650 | 325 | 100 | | | |
| Post-1982 budget method | | | | | | |
| Total (after interactions)[1] | 2,225 | 2,320 | 2,170 | 2,405 | 2,350 | 2,225 |
| **General science, space, and technology:** | | | | | | |
| Expensing of research and development expenditures: | | | | | | |
| Pre-1983 budget method | 840 | 1,330 | 1,370 | 35 | 60 | 60 |
| Post-1982 budget method | | | | | | |
| Credit for increasing research activities | 2,265 | 1,260 | 1,060 | 30 | 30 | 25 |
| Suspension of the allocation of research and experimentation expenditures | 440 | 535 | 200 | | | |
| Total (after interactions) | 3,855 | 3,385 | 2,675 | 70 | 100 | 95 |
| **Energy:** | | | | | | |
| Expensing of exploration and development costs: | | | | | | |
| Oil and gas | −1,215 | −1,255 | −950 | 490 | 435 | 465 |
| Other fuels | 35 | 35 | 35 | | | |
| Excess of percentage over cost depletion: | | | | | | |
| Oil and gas | 300 | 195 | 135 | 1,075 | 655 | 450 |
| Other fuels | 320 | 220 | 175 | 20 | 15 | 15 |
| Capital gains treatment of royalties on coal | 15 | 5 | | 110 | 25 | |
| Exclusion of interest on State and local industrial development bonds for certain energy facilities | 180 | 200 | 205 | | | |
| Residential energy credits: | | | | | | |
| Supply incentives | | | | 175 | 20 | |
| Conservation incentives | | | | 70 | | |
| Alternative, conservation and new technology credits: | | | | | | |
| Supply incentives | 360 | 325 | 90 | 15 | 5 | |
| Conservation incentives | * | * | * | | | |
| Alternative fuel production credit | 25 | 15 | 15 | | | |
| Alcohol fuel credit[2] | 10 | 10 | 10 | | | |
| Energy credit for intercity buses | 5 | * | * | | | |
| Special rules for mining reclamation reserves | 50 | 45 | 40 | 5 | 5 | 5 |
| Total (after interactions) | 30 | −145 | −175 | 1,280 | 825 | 665 |
| **Natural resources and environment:** | | | | | | |
| Expensing of exploration and development costs, nonfuel minerals | 30 | 30 | 30 | 5 | 5 | 5 |
| Excess of percentage over cost depletion, nonfuel minerals | 410 | 295 | 280 | 25 | 20 | 20 |

Table G–1. OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued

(In millions of dollars)

| Description | Fiscal years | | | | | |
|---|---|---|---|---|---|---|
| | Corporations | | | Individuals | | |
| | 1987 | 1988 | 1989 | 1987 | 1988 | 1989 |
| Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities | 1,455 | 1,600 | 1,555 | | | |
| Tax incentives for preservation of historic structures | 115 | 125 | 140 | 215 | 200 | 200 |
| Capital gains treatment of iron ore | * | * | | 25 | 5 | |
| Capital gains treatment of certain timber income | 330 | 140 | | 125 | 35 | |
| Expensing of multiperiod timber growing costs | | 225 | 320 | | 65 | 105 |
| Investment credit and seven-year amortization for reforestation expenditures | 30 | 30 | 35 | 350 | 275 | 275 |
| Total (after interactions) | 2,305 | 2,365 | 2,620 | 730 | 600 | 745 |
| Agriculture: | | | | | | |
| Expensing of certain capital outlays | 75 | 65 | 70 | 615 | 555 | 580 |
| Expensing of certain multiperiod production costs | | | | | * | 5 |
| Treatment of loans forgiven solvent farmers as if insolvent | | | | 10 | 10 | 10 |
| Capital gains treatment of certain income | 60 | 15 | | 755 | 300 | |
| Special investment credit carryback rules for farming | | | | | | 110 |
| Total (after interactions) | 135 | 75 | 80 | 1,375 | 915 | 730 |
| Commerce and housing credit: | | | | | | |
| Dividend exclusion | | | | 740 | 105 | |
| Exclusion of interest on small issue industrial development bonds | 2,470 | 2,615 | 2,665 | | | |
| Exemption of credit union income | 285 | 275 | 250 | | | |
| Excess bad debt reserves of financial institutions | 770 | 315 | 75 | | | |
| Exclusion of interest on life insurance savings | | | | 5,430 | 7,060 | 8,345 |
| Deductions for special percentage of taxable income for life insurance companies | 2,110 | 1,440 | | | | |
| Deductibility of interest on consumer credit | | | | 15,115 | 10,825 | 5,890 |
| Deductibility of mortgage interest on owner-occupied homes | | | | 33,675 | 33,640 | 35,805 |
| Deductibility of property tax on owner-occupied homes | | | | 8,300 | 7,850 | 7,295 |
| Exclusion of interest on State and local housing bonds for owner-occupied housing | 1,900 | 2,010 | 2,005 | | | |
| Exclusion of interest on State and local debt for rental housing | 1,275 | 1,285 | 1,300 | | | |
| Capital gains (other than agriculture, timber, iron ore and coal) | 2,460 | 820 | | 44,375 | 12,025 | 1,445 |
| Deferral of capital gains on home sales | | | | 2,960 | 3,245 | 4,035 |
| Exclusion of capital gains on home sales for persons age 55 and over | | | | 1,275 | 3,255 | 3,805 |
| Carryover basis of capital gains at death | | | | 7,695 | 13,000 | 17,910 |
| Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures | 35,015 | 16,300 | 11,815 | 3,355 | 2,115 | 1,275 |
| Special investment credit carryback rules for steel companies | | | 500 | | | |
| Accelerated depreciation on rental housing: | | | | | | |
| Pre-1981 budget method | 1,860 | 1,505 | 1,230 | 1,255 | 1,065 | 1,125 |
| Post-1981 budget method | | | | | | |

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Table G–1. OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued

(In millions of dollars)

| Description | Fiscal years | | | | | |
|---|---|---|---|---|---|---|
| | Corporations | | | Individuals | | |
| | 1986 | 1987 | 1988 | 1986 | 1987 | 1988 |
| Targeted jobs credit | 430 | 255 | 400 | 80 | 45 | 60 |
| Deduction for two earner married couples | .......... | .......... | .......... | 6,510 | 1,625 | .......... |
| Total training and employment (after interactions) | 2,435 | 1,125 | 720 | 12,015 | 7,075 | 5,490 |
| Deductibility of charitable contributions, other than education and health | 600 | 580 | 540 | 12,265 | 8,875 | 8,305 |
| Deduction for certain adoption expenses | .......... | .......... | .......... | * | * | .......... |
| Exclusion of parsonage allowances | .......... | .......... | .......... | 175 | 185 | 195 |
| Total social services, (after interactions) | 600 | 580 | 540 | 12,440 | 9,060 | 8,500 |
| Grand total (after interactions) [1] | 3,780 | 2,450 | 1,980 | 28,055 | 20,345 | 18,045 |
| **Health:** | | | | | | |
| Exclusion of employer contributions for medical insurance premiums and medical care | .......... | .......... | .......... | 29,910 | 28,730 | 30,205 |
| Deductibility of medical expenses | .......... | .......... | .......... | 3,825 | 2,325 | 1,725 |
| Exclusion of interest on State and local debt for private nonprofit health facilities | 2,105 | 2,250 | 2,250 | .......... | .......... | .......... |
| Deductibility of charitable contributions (health) | 295 | 285 | 270 | 1,730 | 1,250 | 1,170 |
| Tax credit for orphan drug research | * | * | * | .......... | .......... | .......... |
| Total (after interactions) | 2,400 | 2,535 | 2,520 | 35,465 | 32,305 | 33,100 |
| **Income security:** | | | | | | |
| Exclusion of railroad retirement system benefits | .......... | .......... | .......... | 420 | 400 | 370 |
| Exclusion of workmen's compensation benefits | .......... | .......... | .......... | 2,500 | 2,425 | 2,270 |
| Exclusion of public assistance benefits: | | | | | | |
| Pre-1983 budget method | .......... | .......... | .......... | 580 | 490 | 355 |
| Post-1982 budget method | .......... | .......... | .......... | .......... | .......... | .......... |
| Exclusion of special benefits for disabled coal miners | .......... | .......... | .......... | 145 | 130 | 115 |
| Exclusion of untaxed unemployment insurance benefits | .......... | .......... | .......... | 1,080 | 270 | .......... |
| Exclusion of military disability pensions | .......... | .......... | .......... | 120 | 110 | 105 |
| Net exclusion of pension contributions and earnings: | | | | | | |
| Employer plans | .......... | .......... | .......... | 71,940 | 64,505 | 58,185 |
| Individual Retirement Accounts | .......... | .......... | .......... | 22,470 | 15,150 | 11,635 |
| Keogh plans | .......... | .......... | .......... | 3,730 | 2,820 | 1,715 |
| Exclusion of other employee benefits: | | | | | | |
| Premiums on group term life insurance | .......... | .......... | .......... | 2,960 | 2,730 | 2,485 |
| Premiums on accident and disability insurance | .......... | .......... | .......... | 175 | 160 | 160 |
| Income of trusts to finance supplementary unemployment benefits | .......... | .......... | .......... | 30 | 30 | 30 |
| Additional exemption for the blind | .......... | .......... | .......... | 35 | 10 | .......... |
| Additional deduction for the blind | .......... | .......... | .......... | .......... | 10 | 10 |
| Additional exemption for elderly | .......... | .......... | .......... | 2,785 | 710 | .......... |
| Additional deduction for the elderly | .......... | .......... | .......... | .......... | 810 | 1,150 |
| Tax credit for the elderly and disabled | .......... | .......... | .......... | 110 | 105 | 90 |
| Deductibility of casualty losses | .......... | .......... | .......... | 270 | 230 | 225 |
| Earned income credit [3] | .......... | .......... | .......... | 700 | 1,110 | 1,595 |
| Total (after interactions) [1] | .......... | .......... | .......... | 107,850 | 90,360 | 78,885 |
| **Social Security:** | | | | | | |
| Exclusion of social security benefits: | | | | | | |
| Disability insurance benefits | .......... | .......... | .......... | 1,195 | 1,145 | 1,040 |
| OASI benefits for retired workers | .......... | .......... | .......... | 13,270 | 12,980 | 12,025 |
| Benefits for dependents and survivors | .......... | .......... | .......... | 3,920 | 3,800 | 3,545 |
| Total (after interactions) | .......... | .......... | .......... | 18,385 | 17,925 | 16,610 |

Table G–1. **OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

| Description | Fiscal years | | | | | |
|---|---|---|---|---|---|---|
| | Corporations | | | Individuals | | |
| | 1986 | 1987 | 1988 | 1986 | 1987 | 1988 |
| **eterans benefits and services:** | | | | | | |
| Exclusion of veterans disability compensation | ........ | ........ | ........ | 1,705 | 1,585 | 1,440 |
| Exclusion of veterans pensions | ........ | ........ | ........ | 195 | 120 | 80 |
| Exclusion of GI bill benefits | ........ | ........ | ........ | 105 | 85 | 70 |
| Exclusing of interest on state and local debt for veterans housing | ........ | ........ | ........ | 290 | 295 | 305 |
| Total (after interactions) | ........ | ........ | ........ | 2,295 | 2,085 | 1,895 |
| **eneral government:** | | | | | | |
| Credits and deductions for political contributions | ........ | ........ | ........ | 220 | 55 | ........ |
| **eneral purpose fiscal assistance:** | | | | | | |
| Exclusion of interest on public purpose State and local debt | 2,010 | 2,235 | 2,330 | 7,160 | 7,875 | 8,040 |
| Deductibility of nonbusiness State and local taxes other than on owner-occupied homes | ........ | ........ | ........ | 23,965 | 18,235 | 14,845 |
| Tax credit for corporations receiving income from doing business in United States possessions | 3,155 | 2,855 | 2,415 | ........ | ........ | ........ |
| Total (after interactions) | 5,165 | 5,090 | 4,745 | 31,125 | 26,110 | 22,885 |
| **terest:** | | | | | | |
| Deferral of interest on savings bonds | ........ | ........ | ........ | 825 | 790 | 710 |

*$2.5 million or less. All estimates have been rounded to the nearest $5 million.

[1] Totals include only pre-1983 budget method.

[2] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of $400 million in 1986, $340 lion in 1987, and $300 million in 1988.

[3] The figures in the table indicate the tax subsidies provided by the earned income tax credit. The effect on outlays is: 1986, $1,415 million; 87, $1,491 million; 1988, $2,910 million.

Table G–2. **REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES BY FUNCTION**

(In millions of dollars)

| Description | Fiscal years | | | | | |
|---|---|---|---|---|---|---|
| | Corporations | | | Individuals | | |
| | 1986 | 1987 | 1988 | 1986 | 1987 | 1988 |
| **National defense:** | | | | | | |
| Exclusion of benefits and allowances to Armed Forces personnel | ...... | ...... | ...... | 2,095 | 2,050 | 1,925 |
| **International affairs:** | | | | | | |
| Exclusion of income earned abroad by United States citizens | ...... | ...... | ...... | 1,490 | 1,555 | 1,630 |
| Exclusion of income of foreign sales corporations (FSC) | 945 | 960 | 915 | ...... | ...... | ...... |
| Inventory property sales source rules exception | ...... | 320 | 495 | ...... | ...... | ...... |
| Certain nonfinancial institutions operations interest allocation rules exception | ...... | 15 | 40 | ...... | ...... | ...... |
| Deferral of income from controlled foreign corporations: | | | | | | |
| Pre-1983 budget method | 390 | 210 | 70 | ...... | ...... | ...... |
| Post-1982 budget method | ...... | ...... | ...... | ...... | ...... | ...... |
| **General science, space, and technology:** | | | | | | |
| Expensing of research and development expenditures: | | | | | | |
| Pre-1983 budget method | 635 | 1,170 | 1,405 | 25 | 50 | 60 |
| Post-1982 budget method | ...... | ...... | ...... | ...... | ...... | ...... |
| Credit for increasing research activities | 665 | 1,815 | 750 | 15 | 30 | 20 |
| Suspension of the allocation of research and experimentation expenditures | 260 | 350 | 140 | ...... | ...... | ...... |
| **Energy:** | | | | | | |
| Expensing of exploration and development costs: | | | | | | |
| Oil and gas | −1,110 | −1,300 | −955 | 600 | 425 | 455 |
| Other fuels | 35 | 35 | 35 | ...... | ...... | ...... |
| Excess of percentage over cost depletion: | | | | | | |
| Oil and gas | 200 | 165 | 115 | 905 | 625 | 410 |
| Other fuels | 235 | 205 | 140 | 15 | 15 | 15 |
| Capital gains treatment of royalties on coal | 10 | 5 | ...... | 75 | 45 | ...... |
| Exclusion of interest on State and local industrial development bonds for certain energy facilities | −25 | −25 | −25 | 210 | 215 | 190 |
| Residential energy credits: | | | | | | |
| Supply incentives | ...... | ...... | ...... | 315 | 55 | ...... |
| Conservation incentives | ...... | ...... | ...... | 190 | ...... | ...... |

Table G–2. **REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

| Description | Fiscal years | | | | | |
|---|---|---|---|---|---|---|
| | Corporations | | | Individuals | | |
| | 1986 | 1987 | 1988 | 1986 | 1987 | 1988 |
| Alternative, conservation and new technology credits: | | | | | | |
| Supply incentives | 265 | 290 | 120 | 15 | 10 | .......... |
| Conservation incentives | * | * | * | .......... | .......... | .......... |
| Alternative fuel production credit | 20 | 10 | 10 | * | * | * |
| Alcohol fuel credit [1] | 5 | 5 | 5 | * | * | * |
| Energy credit for intercity buses | 5 | * | * | .......... | .......... | .......... |
| Special rules for minning reclamation reserves | 35 | 40 | 40 | 5 | 5 | 5 |
| **Natural resources and environment:** | | | | | | |
| Expensing of exploration and development costs, nonfuel minerals | 30 | 30 | 30 | 5 | 5 | 5 |
| Excess of percentage over cost depletion, nonfuel minerals | 300 | 280 | 220 | 15 | 15 | 15 |
| Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities | −305 | −230 | −225 | 1,905 | 1,965 | 1,795 |
| Tax incentives for preservation of historic structures | 150 | 140 | 135 | 280 | 305 | 275 |
| Capital gains treatment of iron ore | * | * | .......... | 15 | 10 | .......... |
| Capital gains treatment of certain timber income | 320 | 155 | .......... | 90 | 60 | .......... |
| Expensing of multiperiod timber growing costs | .......... | 100 | 170 | .......... | 35 | 115 |
| Investment credit and seven-year amortization for reforestation expenditures | 40 | 40 | 40 | 180 | 175 | 180 |
| **Agriculture:** | | | | | | |
| Expensing of certain capital outlays | 75 | 65 | 70 | 425 | 425 | 460 |
| Expensing of certain multiperiod production costs | .......... | * | * | .......... | * | 5 |
| Treatment of loans forgiven solvent farmers as if insolvent | .......... | .......... | .......... | 10 | 10 | 10 |
| Capital gains treatment of certain income | 35 | 10 | .......... | 605 | 125 | .......... |
| Special investment tax credit carryback rules for farming | .......... | .......... | .......... | .......... | .......... | 235 |
| **Commerce and housing credit:** | | | | | | |
| Dividend exclusion | .......... | .......... | .......... | 535 | 365 | .......... |
| Exclusion of interest on small issue industrial development bonds | −400 | −395 | −265 | 3,175 | 3,195 | 2,730 |
| Exemption of credit union income | 195 | 190 | 175 | .......... | .......... | .......... |
| Excess bad debt reserves of financial institutions | 480 | 365 | 55 | .......... | .......... | .......... |
| Exclusion of interest on life insurance savings | .......... | .......... | .......... | 6,990 | 6,130 | 6,510 |
| Deduction for special percentage of taxable income for life insurance companies | 1,425 | 910 | .......... | .......... | .......... | .......... |
| Deductibility of interest on consumer credit | .......... | .......... | .......... | 17,945 | 12,065 | 5,970 |
| Deductibility of mortgage interest on owner-occupied homes | .......... | .......... | .......... | 30,435 | 24,920 | 20,080 |
| Deductibility of property tax on owner-occupied homes | .......... | .......... | .......... | 8,560 | 8,030 | 7,255 |
| Exclusion of interest on State and local housing bonds for owner-occupied housing | 510 | 495 | 430 | 1,540 | 1,570 | 1,365 |
| Exclusion of interest on State and local debt for rental housing | 340 | 335 | 280 | 900 | 975 | 815 |
| Capital gains (other than agriculture, timber, iron ore and coal) | 2,190 | 905 | .......... | 28,820 | 22,520 | 3,850 |
| Deferral of capital gains on home sales | .......... | .......... | .......... | 1,985 | 2,285 | 4,790 |
| Exclusion of capital gains on home sales for persons age 55 and over | .......... | .......... | .......... | 925 | 1,065 | 2,320 |

Table G–2. **REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

| Description | Fiscal years | | | | | |
|---|---|---|---|---|---|---|
| | Corporations | | | Individuals | | |
| | 1986 | 1987 | 1988 | 1986 | 1987 | 1988 |
| Carryover basis of capital gains at death | ........ | ........ | ........ | 4,940 | 5,685 | 12,385 |
| Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures | 17,305 | 12,260 | 8,350 | 2,750 | 1,935 | 1,260 |
| Special investment credit carryback rules for steel companies | ........ | ........ | 565 | ........ | ........ | ........ |
| Accelerated depreciation on rental housing: | | | | | | |
| Pre-1983 budget method | 1,605 | 1,570 | 1,235 | 1,105 | 1,300 | 1,160 |
| Post-1982 budget method | ........ | ........ | ........ | ........ | ........ | ........ |
| Accelerated depreciation of buildings other than rental housing: | | | | | | |
| Pre-1983 budget method | 3,525 | 3,505 | 3,110 | 1,515 | 1,680 | 1,690 |
| Post-1982 budget method | ........ | ........ | ........ | ........ | ........ | ........ |
| Accelerated depreciation of machinery and equipment: | | | | | | |
| Pre-1983 budget method | 30,260 | 25,075 | 23,165 | 8,750 | 7,745 | 7,480 |
| Post-1982 budget method | ........ | ........ | ........ | ........ | ........ | ........ |
| Safe harbor leasing rules | 1,700 | 1,065 | 690 | ........ | ........ | ........ |
| Amortization of start-up costs | 25 | 20 | 20 | 220 | 200 | 165 |
| Reinvestment of dividends in public utility stock | ........ | ........ | ........ | 280 | ........ | ........ |
| Reduced rates on the first $100,000 of corporate income: | | | | | | |
| Pre-1983 budget method | 4,655 | 4,645 | 3,910 | ........ | ........ | ........ |
| Post-1982 budget method | ........ | ........ | ........ | ........ | ........ | ........ |
| **Transportation:** | | | | | | |
| Deferral of tax on shipping companies | 130 | 115 | 115 | ........ | ........ | ........ |
| Exclusion of interest on State and local bonds for mass commuting vehicles | −5 | −5 | 20 | 50 | 40 | 30 |
| Deduction for motor carrier operating rights | 5 | ........ | ........ | 5 | * | ........ |
| **Community and regional development:** | | | | | | |
| Five-year amortization for housing rehabilitation | 15 | 15 | 15 | 25 | 30 | 30 |
| Credit for low-income housing investments | ........ | 5 | 25 | ........ | 75 | 295 |
| Investment credit for rehabilitation of structures (other than historic) | 165 | 130 | 100 | 110 | 95 | 65 |
| Exclusion of interest on IDBs for airports, docks and sports and convention facilities | −70 | −70 | −70 | 655 | 710 | 680 |
| **Education, training, employment, and social services:** | | | | | | |
| Exclusion of scholarship and fellowship income: | | | | | | |
| Pre-1983 budget method | ........ | ........ | ........ | 705 | 650 | 535 |
| Post-1982 budget method | ........ | ........ | ........ | ........ | ........ | ........ |
| Exclusion of interest on State and local student loan bonds | 80 | 80 | 70 | 280 | 290 | 250 |
| Exclusion of interest on State and local debt for private nonprofit educational facilities | 75 | 70 | 60 | 265 | 300 | 250 |
| Parental personal exemption for students age 19 or over | ........ | ........ | ........ | 1,220 | 2,060 | 2,305 |
| Deductibility of charitable contributions (education) | 480 | 470 | 440 | 1,160 | 870 | 815 |
| Employer educational assistance | ........ | ........ | ........ | 75 | 80 | 25 |
| Exclusion of employer provided child care | ........ | ........ | ........ | 20 | 30 | 40 |
| Exclusion of employee meals and lodging (other than military) | ........ | ........ | ........ | 850 | 745 | 685 |

Table G–2. **REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

| Description | Fiscal years | | | | | |
|---|---|---|---|---|---|---|
| | Corporations | | | Individuals | | |
| | 1986 | 1987 | 1988 | 1986 | 1987 | 1988 |
| Exclusion of contributions to prepaid legal services plans | | | | 60 | 75 | 20 |
| Investment credit for ESOPs | 1,165 | 665 | 230 | | | |
| Credit for child and dependent care expenses | | | | 3,170 | 3,455 | 3,615 |
| Targeted jobs credit | 430 | 255 | 405 | 80 | 45 | 60 |
| Deduction for two earner married couples | | | | 6,530 | 4,875 | |
| Deductibility of charitable contributions, other than education and health | 595 | 585 | 545 | 12,025 | 9,005 | 8,430 |
| Deductions for certain adoption expenses | | | | * | * | |
| Exclusion of parsonage allowances | | | | 140 | 150 | 160 |
| **Health:** | | | | | | |
| Exclusion of employer contributions for medical insurance premiums and medical care | | | | 23,435 | 23,305 | 24,165 |
| Deductibility of medical expenses | | | | 3,755 | 3,130 | 1,770 |
| Exclusion of interest on State and local debt for private nonprofit health facilities | 70 | 65 | 55 | 2,165 | 2,350 | 1,950 |
| Deductibility of charitable contributions (health) | 295 | 290 | 270 | 1,705 | 1,270 | 1,190 |
| Tax credit for orphan drug research | * | * | * | | | |
| **Income security:** | | | | | | |
| Exclusion of railroad retirement system benefits | | | | 450 | 370 | 250 |
| Exclusion of workmen's compensation benefits | | | | 2,425 | 2,505 | 2,365 |
| Exclusion of public assistance benefits: | | | | | | |
| Pre-1983 budget method | | | | 580 | 495 | 360 |
| Post-1982 budget method | | | | | | |
| Exclusion of special benefits for disabled coal miners | | | | 145 | 135 | 120 |
| Exclusion of untaxed unemployment insurance benefits | | | | 1,085 | 690 | |
| Exclusion of military disability pensions | | | | 120 | 110 | 105 |
| Net exclusion of pension contributions and earnings: | | | | | | |
| Employer plans | | | | 48,950 | 45,725 | 43,365 |
| Individual Retirement Accounts | | | | 14,890 | 13,890 | 9,080 |
| Keoghs | | | | 2,135 | 2,070 | 1,500 |
| Exclusion of other employee benefits: | | | | | | |
| Premiums on group term life insurance | | | | 2,200 | 2,120 | 1,995 |
| Premiums on accident and disability insurance | | | | 130 | 120 | 120 |
| Income of trusts to finance supplementary unemployment benefits | | | | 30 | 30 | 30 |
| Additional exemption for the blind | | | | 35 | 15 | |
| Additional deduction for the blind | | | | | 10 | 10 |
| Additional exemption for elderly | | | | 2,750 | 1,135 | |
| Additional deduction for the elderly | | | | | 790 | 1,150 |
| Tax credit for the elderly and disabled | | | | 105 | 100 | 85 |
| Deductibility of casualty losses | | | | 275 | 230 | 225 |
| Earned income credit [2] | | | | 590 | 540 | 855 |
| **Social Security:** | | | | | | |
| Exclusion of social security benefits: | | | | | | |
| Disability insurance benefits | | | | 1,195 | 1,145 | 1,055 |
| OASI benefits for retired workers | | | | 13,275 | 12,945 | 12,200 |
| Benefits for dependents and survivors | | | | 3,905 | 3,815 | 3,580 |
| **Veterans benefits and services:** | | | | | | |
| Exclusion of veterans disability compensation | | | | 1,700 | 1,605 | 1,455 |
| Exclusion of veterans pensions | | | | 195 | 130 | 85 |

Table G–2. **REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

| Description | Fiscal years | | | | | |
|---|---|---|---|---|---|---|
| | Corporations | | | Individuals | | |
| | 1986 | 1987 | 1988 | 1986 | 1987 | 1988 |
| Exclusion of GI bill benefits | ........ | ........ | ........ | 105 | 90 | 75 |
| Exclusion of interest on State and local debt for veterans housing | 75 | 70 | 60 | 225 | 220 | 190 |
| **General government:** | | | | | | |
| Credits and deductions for political contributions | ........ | ........ | ........ | 260 | 220 | ........ |
| **General purpose fiscal assistance:** | | | | | | |
| Exclusion of interest on public purpose State and local debt | 2,170 | 2,225 | 2,000 | 7,420 | 7,995 | 6,950 |
| Deductibility of nonbusiness State and local taxes other than on owner-occupied homes | ........ | ........ | ........ | 23,985 | 18,800 | 14,995 |
| Tax credit for corporations receiving income from doing business in United States possessions | 1,895 | 1,855 | 1,690 | ........ | ........ | ........ |
| **Interest:** | | | | | | |
| Deferral of interest on savings bonds | ........ | ........ | ........ | 820 | 810 | 745 |

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*$2.5 million or less. All estimates have been rounded to the nearest $5 million.

[1] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of $400 million in 1986, $340 million in 1987, and $300 million in 1988.

[2] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is: 1986, $1.415 million; 1987, $1,491 million; 1988, $2,910 million.

# APPENDIX E

## Outlays Under Finance Committee Expenditure Accounts for Fiscal 1988-1990 (CBO baseline projections—in millions of dollars)

## OUTLAYS UNDER FINANCE COMMITTEE EXPENDITURE ACCOUNTS FOR FISCAL 1988–90

[CBO baseline projections—in millions of dollars]

| | Fiscal year— | | | |
|---|---|---|---|---|
| | 1988 | 1989 | 1990 | 1988–90 |
| Social Security (OASDI) | 221,605 | 236,334 | 253,107 | 711,046 |
| Medicare | 91,725 | 101,384 | 113,597 | 306,706 |
| Medicaid | 30,043 | 33,042 | 36,120 | 99,205 |
| Maternal and Child Health | 478 | 478 | 478 | 1,434 |
| Supplemental Security Income | 12,218 | 12,122 | 11,801 | 36,141 |
| Aid to Families with Dependent Children (AFDC) | 10,215 | 10,548 | 11,017 | 31,780 |
| Work Incentive Program (WIN) | 154 | 162 | 171 | 487 |
| Child support Enforcement | 813 | 848 | 873 | 2,534 |
| Earned Income Credit [1] | 3,133 | 4,392 | 4,513 | 12,038 |
| Foster Care/Adoption | 742 | 777 | 805 | 2,324 |
| Child Welfare Services | 234 | 246 | 259 | 739 |
| Social services | 2,700 | 2,700 | 2,700 | 8,100 |
| Unemployment Compensation | 21,360 | 20,685 | 19,324 | 61,369 |
| Trade Adjustment | 132 | 135 | 126 | 393 |
| Job Service[2] | 953 | 1,003 | 1,058 | 3,014 |
| Puerto Rico Tax Rebates | 250 | 250 | 250 | 750 |
| Puerto Rico Customs Rebates | 115 | 121 | 127 | 363 |
| Public Debt Administration | 209 | 219 | 229 | 657 |
| Interest on Public Debt | 201,959 | 213,314 | 222,980 | 638,253 |
| Interest on Tax Refunds | 1,426 | 1,532 | 1,674 | 4,632 |
| Pension Benefit Guaranty Corp | (19) | (18) | (11) | (48) |
| U.S. Trade Representative | 14 | 15 | 15 | 44 |
| Customs—general administration | 867 | 895 | 930 | 2,692 |
| Customs—air interdiction | 193 | 200 | 221 | 614 |
| Customs Refunds, Forefeitures, etc | 20 | 20 | 21 | 61 |
| Tax Court | 27 | 28 | 29 | 84 |
| Internal Revenue Service | 4,567 | 4,692 | 4,801 | 14,060 |
| Totals: | | | | |
| Social Security (OASDI) | 221,605 | 236,334 | 253,107 | 711,046 |
| Other (except interest) | 181,143 | 194(944 | 209,454 | 585,541 |

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[1] Refundable portion.

[2] Portion funded from unemployment tax.

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